

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for January 1998

Budgetary deficit of \$1.7 billion in January 1998

There was a budgetary deficit of \$1.7 billion in January 1998, compared to a deficit of \$1.4 billion in January 1997. About one-third of the deficit in January 1998 was attributable to delays in the receipt of tax revenues, due to the ice storm in eastern Canada and the fact that the remittance day for monthly goods and services tax (GST) filers – January 31 – fell on a Saturday. These revenues will be included in the February 1998 results. On a year-over-year basis, budgetary revenues were down \$0.6 billion (5.6 per cent) in January 1998. Program spending declined by \$0.5 billion (5.9 per cent), primarily reflecting the ongoing impacts of the restraint measures and a growing economy. Public debt charges were up \$0.2 billion (4.5 per cent), reflecting accrual adjustments relating to previous months.

The year-over-year decline in budgetary revenues was attributable to lower employment insurance premium revenues (down \$0.6 billion) and GST receipts (down \$0.5 billion). The decline in employment insurance premium revenues was attributable to a number of factors: 1) the impact of the change in remittance requirements; 2) the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) to \$2.70; and 3) transfer to personal income tax collections due to overpayments for taxation year 1996. Timing considerations account for the decline in GST receipts. In contrast, corporate income tax collections were up 14.2 per cent, while personal income tax collections were 3.3 per cent higher.

The decline in program spending reflected lower expenditures related to employment insurance benefits, transfers to other levels of government, subsidies and other transfers, and payments to Crown corporations. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers.

Surplus for April 1997 to January 1998 of \$3.3 billion

Over the first 10 months of the 1997-98 fiscal year, there was a surplus of \$3.3 billion, representing an improvement of \$10.7 billion from the deficit of \$7.3 billion reported for the first 10 months of 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending. Budgetary revenues were up \$6.2 billion (5.5 per cent), program spending declined \$3.4 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.7 per cent).

Financial surplus of \$14.3 billion in April 1997 to January 1998 period

With a budgetary surplus of \$3.3 billion and a net source of funds from non-budgetary transactions of \$5.1 billion, there was a financial surplus, excluding foreign exchange transactions, of \$8.4 billion, an improvement of \$10.2 billion from the same period in 1996-97. There was also a net source of funds amounting to \$6.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$14.3 billion, an improvement of \$21.1 billion from the same period last year. Cash balances were slightly lower over the first 10 months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$14.8 billion retirement of market debt.

Balanced budget for 1997-98

Based on the financial results for the first 10 months of 1997-98, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the budget, the budget will be balanced in 1997-98.



Department of Finance Ministère des Finances
Canada Canada

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Table 1
Summary statement of transactions

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,153	10,532	112,983	119,205
Program spending	-8,982	-8,448	-82,943	-79,513
Operating surplus	2,171	2,084	30,040	39,692
Public debt charges	-3,586	-3,746	-37,381	-36,376
Deficit/surplus	-1,415	-1,662	-7,341	3,316
Non-budgetary transactions	2,555	3,116	5,549	5,052
Financial requirements/surplus (excluding foreign exchange transactions)	1,140	1,454	-1,792	8,368
Foreign exchange transactions	-2,788	-1,868	-4,994	5,972
Total financial requirements/surplus	-1,648	-414	-6,786	14,340
Unmatured debt transactions	-1,431	-1,658	319	-14,513

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April 1997 to January 1998 period

Over the April 1997 to January 1998 period, budgetary revenues were up \$6.2 billion, or 5.5 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy, as timing factors in January 1998 served to depress revenues in that month.

- Personal income tax collections were up \$4.2 billion. This increase was due to higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up \$2.9 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.2 billion. This decline reflects a number of factors including the change in remittance procedures. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in

an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. As a result, employment insurance premium revenues were significantly lower in the second half of 1997, thereby adversely affecting fiscal year 1997-98 results to date. The January 1998 results were also adversely affected by this change as about half of the revenues in the month related to December 1997 collections. Premium rates were reduced effective January 1998, with the employee rate falling from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70. Finally, there were net transfers of about \$0.6 billion during the first 10 months of 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

- Good and services tax collections were up \$1.2 billion, largely attributable to the strength in consumer demand. However, collections in January 1998 were depressed due to timing factors associated with the ice storm in eastern Canada and the fact the monthly remittance date (January 31)

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Table 2
Budgetary revenues

	January		April to January		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,257	5,432	54,970	59,149	7.6
Corporate income tax	1,334	1,523	11,193	14,100	26.0
Other income tax revenue	301	400	2,029	1,993	-1.8
Total income tax	6,892	7,355	68,192	75,242	10.3
Employment insurance premium revenues	2,038	1,433	16,143	15,298	-5.2
Excise taxes and duties					
Goods and services tax	924	465	13,284	14,441	8.7
Customs import duties	221	205	2,095	2,102	0.3
Sales and excise taxes	795	705	6,757	7,107	5.2
Total excise taxes and duties	1,940	1,375	22,136	23,650	6.8
Total tax revenues	10,870	10,163	106,471	114,190	7.2
Non-tax revenues	283	369	6,512	5,015	-23.0
Total budgetary revenues	11,153	10,532	112,983	119,205	5.5

for the receipt of collections fell on a Saturday. As a result, a large part of the January collections were received in February and will be included in that month's results.

- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of the tariff reductions. Other excise taxes and duties were up \$0.4 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$1.5 billion. All of this decline was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System.

Program spending lower in April 1997 to January 1998 period

Program spending declined \$3.4 billion, or 4.1 per cent in the first 10 months of 1997-98, compared to the same period last year, with all major components, except subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets, and to a lesser extent to the growth in the economy.

- Major transfers to persons declined \$0.3 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$2.6 billion, primarily reflecting lower cash transfers under the CHST. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to the provinces, allowing them to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer,

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Table 3
Budgetary expenditures

	January		April to January		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,798	1,863	17,935	18,437	2.8
Employment insurance benefits	1,446	1,178	10,042	9,225	-8.1
Total	3,244	3,041	27,977	27,662	-1.1
Other levels of government					
Canada Health and Social Transfer	1,267	1,006	12,592	10,168	-19.3
Fiscal transfers	717	745	7,806	7,736	-0.9
Alternative Payments for Standing Programs	-166	-180	-1,679	-1,784	6.3
Total	1,818	1,571	18,719	16,120	-13.9
Subsidies and other transfers					
Agriculture	117	136	673	543	-19.3
Foreign Affairs	224	206	1,340	1,259	-6.0
Human Resources Development	201	124	1,382	1,129	-18.3
Indian and Northern Development	237	233	3,037	3,174	4.5
Industry and Regional Development	126	91	1,237	1,340	8.3
Veterans Affairs	119	116	1,136	1,139	0.3
Other	326	379	2,340	2,800	19.7
Total	1,350	1,285	11,145	11,384	2.1
Total transfers	6,412	5,897	57,841	55,166	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	90	74	797	746	-6.4
Canada Mortgage and Housing Corporation	224	100	1,582	1,403	-11.3
Other	67	73	1,016	903	-11.1
Total	381	247	3,395	3,052	-10.1
Operating and capital expenditures					
Defence	789	758	7,242	7,000	-3.3
All other departmental expenditures	1,400	1,546	14,465	14,295	-1.2
Total	2,189	2,304	21,707	21,295	-1.9
Total program expenditures	8,982	8,448	82,943	79,513	-4.1
Public debt charges	3,586	3,746	37,381	36,376	-2.7
Total budgetary expenditures	12,568	12,194	120,324	115,889	-3.7

which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.4 billion over the first 10 months of 1997-98, compared to the same period last year, of which about \$1.5 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer.

Legislation has been introduced to apply the \$12.5 billion cash guarantee one year earlier than previously announced, which will result in an additional \$0.2 billion being paid in 1997-98.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.5 billion. This component includes subsidy and

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Table 4
The deficit and financial requirements/surplus

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-1,415	-1,662	-7,341	3,316
Loans, investments and advances				
Crown corporations	-16	239	855	879
Other	16	112	-394	-281
Total	0	351	461	598
Specified purpose accounts				
Canada Pension Plan Account	-445	-184	-858	-387
Superannuation accounts	-183	-194	6,413	5,687
Other	93	12	298	-232
Total	-535	-366	5,853	5,068
Other transactions	3,090	3,131	-765	-614
Total non-budgetary transactions	2,555	3,116	5,549	5,052
Financial requirements/surplus (excluding foreign exchange transactions)	1,140	1,454	-1,792	8,368
Foreign exchange transactions	-2,788	-1,868	-4,994	5,972
Total financial requirements/surplus	-1,648	-414	-6,786	14,340

Table 5
Financial requirements/surplus and unmatured debt transactions

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,648	-414	-6,786	14,340
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	2,700	0	28,060	16,888
Canada Savings Bonds	-222	-364	2,740	-2,569
Treasury bills	-4,050	-1,400	-34,950	-28,000
Other	0	0	307	159
Subtotal	-1,572	-1,764	-3,843	-13,522
Less: Government's holdings of unmatured debt	165	101	-178	50
Total	-1,407	-1,663	-4,021	-13,472
Payable in foreign currencies				
Marketable bonds	0	0	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-44	5	-192	-562
Canada notes	20	0	1,789	-353
Total	-24	5	4,340	-1,041
Total unmatured debt transactions	-1,431	-1,658	319	-14,513
Change in cash balance	-3,079	-2,072	-6,467	-173

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Table 6

Cash, unmatured debt and debt balances: at January 31

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,042	9,137
In foreign currencies	34	53
Total cash balance	2,076	9,190
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	280,825	299,451
Treasury bills	131,150	107,400
Canada Savings Bonds	34,168	30,923
Other	3,785	3,627
Subtotal	449,928	441,401
Less: Government's holdings of unmatured debt	1,212	1,038
Total	448,716	440,363
Payable in foreign currencies		
Marketable bonds	12,257	12,333
Notes and loans	0	0
Canada bills	6,795	7,874
Canada notes	2,099	1,768
Total	21,151	21,975
Total unmatured debt	469,867	462,338

other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce this component's spending in 1998-99. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments associated with the sale of the Air Navigation

System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April 1997 to January 1998 period

Public debt charges were down \$1.0 billion, or 2.7 per cent, on a year-over-year basis. This decline was attributable to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.



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Budgetary surplus of \$0.8 billion in February 1998

There was a budgetary surplus of \$0.8 billion in February 1998, compared to a deficit of \$0.5 billion in February 1997. Budgetary revenues were up \$0.9 billion, or 7.9 per cent, while program spending declined \$0.4 billion, or 4.3 per cent. In contrast, public debt charges were marginally higher.

The year-over-year increase in budgetary revenues was largely attributable to higher personal income tax collections, up \$0.9 billion, reflecting strong growth in employment income. Corporate income tax collections were up \$0.1 billion, while goods and services tax (GST) collections rose by \$0.3 billion. Part of the increase in GST collections was attributable to the receipt of January 1998 collections, which were delayed by the ice storm in eastern Canada. In contrast, employment insurance premium revenues were lower (down \$0.1 billion), primarily reflecting the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) in 1997 to \$2.70 in 1998.

The decline in program spending reflected lower expenditures on each of: transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. In contrast, transfer payments to persons were higher. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers.

Surplus for April 1997 to February 1998 of \$4.1 billion

Over the April 1997 to February 1998 period, there was a surplus of \$4.1 billion, representing an improvement of \$11.9 billion from the deficit of

\$7.8 billion reported for the same period in 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact on program spending of restraint measures introduced in the 1994 and 1995 budgets. Budgetary revenues were up \$7.2 billion (5.7 per cent) and program spending declined \$3.8 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.4 per cent).

Financial surplus of \$12.4 billion in April 1997 to February 1998 period

With a budgetary surplus of \$4.1 billion and a net source of funds from non-budgetary transactions of \$7.2 billion, there was a financial surplus, excluding foreign exchange transactions, of \$11.3 billion, an improvement of \$10.4 billion from the same period in 1996-97. There was also a net source of funds amounting to \$1.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$12.4 billion, an improvement of \$16.8 billion from the same period last year. Cash balances were up slightly over the 11 months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$12.1 billion retirement of market debt. This is somewhat lower than that recorded in the first 10 months, as the government increased its foreign exchange reserve holdings in February 1998.

Balanced budget for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the 1998 budget, a balanced budget will be recorded in 1997-98.



Department of Finance Canada
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Table 1
Summary statement of transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,906	12,844	124,889	132,049
Program spending	-8,820	-8,445	-91,764	-87,958
Operating surplus	3,086	4,399	33,125	44,091
Public debt charges	-3,571	-3,611	-40,952	-39,987
Deficit/surplus	-485	788	-7,827	4,104
Non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions	496	2,455	815	-12,057

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April 1997 to February 1998 period

Over the April 1997 to February 1998 period, budgetary revenues were up \$7.2 billion, or 5.7 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy.

- Personal income tax collections were up \$5.0 billion. This increase was due to higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year. In addition, there have been transfers from employment insurance premium revenues to personal income tax collections for prior-year adjustments.
- Corporate income tax collections were up \$3.0 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.0 billion. This decline was attributable to net transfers of about \$0.6 billion during 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

In addition, premium rates were reduced effective January 1998, with the employee rate falling from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70.

- Goods and services tax collections were up \$1.4 billion, largely attributable to the strength in consumer demand.
- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up \$0.3 billion.
- Non-tax revenues were down \$1.7 billion. Most of this decline was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System.

Program spending lower in April 1997 to February 1998 period

Program spending declined \$3.8 billion, or 4.1 per cent, in the first 11 months of 1997-98, compared to the same period last year, with all major components, with the exception of subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

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Table 2
Budgetary revenues

	February		April to February		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,257	6,114	60,226	65,263	8.4
Corporate income tax	1,778	1,912	12,971	16,012	23.4
Other income tax revenue	246	220	2,275	2,214	-2.7
Total income tax	7,281	8,246	75,472	83,489	10.6
Employment insurance premium revenues	1,791	1,678	17,934	16,976	-5.3
Excise taxes and duties					
Goods and services tax	1,609	1,882	14,893	16,324	9.6
Customs import duties	204	202	2,299	2,304	0.2
Sales and excise taxes	676	645	7,432	7,752	4.3
Total excise taxes and duties	2,489	2,729	24,624	26,380	7.1
Total tax revenues	11,561	12,653	118,030	126,845	7.5
Non-tax revenues	345	191	6,859	5,204	-24.1
Total budgetary revenues	11,906	12,844	124,889	132,049	5.7

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$3.0 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer,

which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.7 billion over the 11 months of 1997-98, compared to the same period last year, of which about \$1.7 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer and recoveries related to overpayments in previous fiscal years. Legislation has been introduced to apply the \$12.5 billion cash guarantee one year earlier than previously announced, which will result in an additional \$0.2 billion being paid in 1997-98.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.7 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions

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Table 3
Budgetary expenditures

	February		April to February		Per cent change
	1997	1998	1996-97	1997-98	(%)
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,819	1,880	19,754	20,317	2.9
Employment insurance benefits	1,133	1,193	11,176	10,418	-6.8
Total	2,952	3,073	30,930	30,735	-0.6
Other levels of government					
Canada Health and Social Transfer	1,267	962	13,860	11,130	-19.7
Fiscal transfers	737	698	8,543	8,434	-1.3
Alternative Payments for Standing Programs	-166	-180	-1,845	-1,964	6.4
Total	1,838	1,480	20,558	17,600	-14.4
Subsidies and other transfers					
Agriculture	136	111	809	654	-19.2
Foreign Affairs	202	205	1,542	1,464	-5.1
Human Resources Development	270	221	1,652	1,350	-18.3
Indian and Northern Development	212	265	3,249	3,439	5.8
Industry and Regional Development	209	230	1,447	1,570	8.5
Veterans Affairs	114	115	1,250	1,254	0.3
Other	361	302	2,701	3,103	14.9
Total	1,504	1,449	12,650	12,834	1.5
Total transfers	6,294	6,002	64,138	61,169	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	56	897	802	-10.6
Canada Mortgage and Housing Corporation	118	125	1,701	1,528	-10.2
Other	96	91	1,111	994	-10.5
Total	314	272	3,709	3,324	-10.4
Operating and capital expenditures					
Defence	783	741	8,024	7,741	-3.5
All other departmental expenditures	1,429	1,430	15,893	15,724	-1.1
Total	2,212	2,171	23,917	23,465	-1.9
Total program expenditures	8,820	8,445	91,764	87,958	-4.1
Public debt charges	3,571	3,611	40,952	39,987	-2.4
Total budgetary expenditures	12,391	12,056	132,716	127,945	-3.6

beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce this component's spending in 1998-99. Within direct program spending, other transfer payments were up, primarily reflecting the timing

of payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

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Table 4
The deficit/surplus and financial requirements/surplus

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-485	788	-7,827	4,104
Loans, investments and advances				
Crown corporations	23	216	878	1,095
Other	-17	-20	-411	-300
Total	6	196	467	795
Specified purpose accounts				
Canada Pension Plan Account	509	42	-350	-344
Superannuation accounts	-232	-296	6,181	5,391
Other	143	49	441	-181
Total	420	-205	6,272	4,866
Other transactions	2,826	2,172	2,061	1,558
Total non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354

Table 5
Financial requirements/surplus and unmatured debt transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,600	-3,100	31,660	13,788
Canada Savings Bonds	-405	-186	2,335	-2,755
Treasury bills	-2,750	1,800	-37,700	-26,200
Other	-316	-169	-9	-10
Subtotal	129	-1,655	-3,714	-15,177
Less: Government's holdings of unmatured debt	135	94	-43	145
Total	264	-1,561	-3,757	-15,032
Payable in foreign currencies				
Marketable bonds	0	2,906	2,743	2,780
Notes and loans	0	0	0	0
Canada bills	232	1,110	40	548
Canada notes	0	0	1,789	-353
Total	232	4,016	4,572	2,975
Total unmatured debt transactions	496	2,455	815	-12,057
Change in cash balance	2,791	465	-3,678	297

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Table 6

Cash, unmatured debt and debt balances: at February 28

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,862	9,647
In foreign currencies	5	8
Total cash balance	4,867	9,655
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	284,425	296,351
Treasury bills	128,400	109,200
Canada Savings Bonds	33,763	30,738
Other	3,469	3,458
Subtotal	450,057	439,747
Less: Government's holdings of unmatured debt	1,076	943
Total	448,981	438,804
Payable in foreign currencies		
Marketable bonds	12,257	15,240
Notes and loans	0	0
Canada bills	7,026	8,984
Canada notes	2,099	1,768
Total	21,382	25,992
Total unmatured debt	470,363	464,796

Public debt charges lower in April 1997 to February 1998 period

Public debt charges were down \$1.0 billion, or 2.4 per cent, on a year-over-year basis. This decline was attributable to lower average effective interest rates on the federal government's debt.

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April 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1998

Surplus of \$63 million in March 1998

A surplus of \$63 million was reported for March 1998, compared to a deficit of \$1.8 billion in March 1997.

Budgetary revenues were up \$2.8 billion largely attributable to higher personal and corporate income tax collections. Personal income tax collections were up \$1.1 billion. About half of this increase was due to special factors, including the impact of lower personal income tax refunds in March 1998 and a transfer of funds to the Provincial Tax Collection Account in March 1997. The remaining increase was largely attributable to strong growth in the economy. Corporate income tax collections were up \$1.2 billion, reflecting higher final payments relating to the 1997 taxation year.

Higher employment insurance benefit payments (up \$0.3 billion), increased cash transfers to other levels of government (up \$0.4 billion), and higher operating and capital expenditures (up \$0.4 billion) explain the \$1 billion year-over-year increase in program spending. The increase in employment insurance benefit payments was attributable to the timing of payments, as the number of unemployed was lower. Transfers under the former Established Programs Financing program, relating to underpayments for 1995-96, accounted for most of the increase in transfers to other levels of government. The increase in operating and capital expenditures was due to a court settlement and the timing of payments.

Year to date: budgetary surplus of \$4.2 billion

Over the period April 1997 to March 1998, the budgetary surplus stood at \$4.2 billion, compared to a budgetary deficit of \$9.6 billion in the same period in 1995-96.

- Budgetary revenues were up \$10.0 billion or 7.3 per cent, on a year-over-year basis. All of this increase was due to the growth in the economy.
- Program spending was down \$2.8 billion or 2.7 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$1.0 billion, or 2.3 per cent. This reflected declines in interest rates, especially short-term rates.

Final results to come in the fall

The financial results for the April 1997 to March 1998 period are not the final results for the 1997-98 fiscal year. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1997-98. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- Based on the financial results to date, coupled with expected developments in the end-of-year accounting period, and incorporating the impact of liabilities announced in the 1998 budget, such as the Canada Millennium Scholarship Fund, a balanced budget will be recorded in 1997-98.

The final audited financial results will be available in the *Annual Financial Report*, scheduled for release in the fall of 1998.



Department of Finance
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Table I

Summary statement of transactions

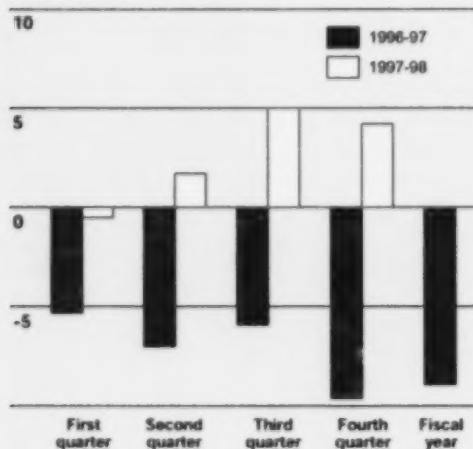
	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	12,422	15,271	137,312	147,320
Program spending	-10,434	-11,478	-102,198	-99,437
Operating surplus	1,988	3,793	35,114	47,883
Public debt charges	-3,798	-3,730	-44,750	-43,716
Deficit/surplus	-1,810	63	-9,636	4,167
Non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions	6,377	2,163	7,192	-9,896

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date

billions of dollars



Budgetary revenues up \$10.0 billion in April 1997 to March 1998 period

Over the April 1997 to March 1998 period, budgetary revenues were up \$10.0 billion, or 7.3 per cent, on a year-over-year basis. This increase primarily reflects the continuing strong economic growth.

- Personal income tax collections were up \$6.2 billion, or 9.8 per cent. This increase was due to higher taxes paid on filing and quarterly instalment payments, relating to the stronger income growth in the 1996 taxation year, and to higher deductions at source from employment, in line with the strong gains in employment since the beginning of last year.
- Corporate income tax collections were up \$4.3 billion, or 26.5 per cent, attributable to an increase in corporate profits, in line with the strengthening economy. Settlement period collections in March 1998, relating to corporations with taxation years ending December 1997, were up \$1.2 billion.
- Employment insurance premiums were down \$1.0 billion, or 5.3 per cent. Most of this decrease was attributable to the impact of the change in remittance requirements, which came into effect in January 1997. This resulted in a one-time increase

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Table 2

Budgetary revenues

	March		April to March		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	2,948	4,075	63,175	69,338	9.8
Corporate income tax	3,131	4,361	16,102	20,373	26.5
Other income tax revenue	175	202	2,449	2,415	-1.4
Total income tax	6,254	8,638	81,726	92,126	12.7
Employment insurance premium revenues	1,866	1,781	19,800	18,758	-5.3
Excise taxes and duties					
Goods and services tax	1,765	1,803	16,658	18,126	8.8
Customs import duties	204	284	2,503	2,588	3.4
Sales and excise taxes	595	698	8,028	8,450	5.3
Total excise taxes and duties	2,564	2,785	27,189	29,164	7.3
Total tax revenues	10,684	13,204	128,715	140,048	8.8
Non-tax revenues	1,738	2,067	8,597	7,272	-15.4
Total budgetary revenues	12,422	15,271	137,312	147,320	7.3

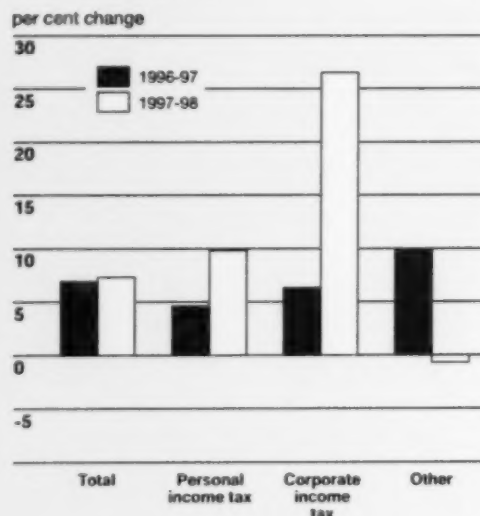
in premium revenues in the final quarter of 1996-97 of about \$1 billion. The impact of lower premium rates was offset by increases in the number of employed.

- Net goods and services tax (GST) collections were up \$1.5 billion, or 8.8 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the strong growth in imports witnessed in 1997 more than offset the impact of tariff reductions. Other excise taxes and duties were up \$0.4 billion, or 5.3 per cent.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$1.3 billion or 15.4 per cent. This decline was attributable to the inclusion in the 1996-97 results of the proceeds (\$1.5 billion) from the sale of the Air Navigation System.

Based on the results to date, it is expected that the final outcome for budgetary revenues will be somewhat higher than estimated in the February 1998 budget. The final outcome will depend upon cash received in March 1998 but not deposited with the Receiver General until April 1998.

Budgetary revenues 1996-97 and 1997-98

April to March
Year-over-year growth



The Fiscal Monitor

Program spending down \$2.8 billion in April 1997 to March 1998 period

Program spending declined by \$2.8 billion, or 2.7 per cent, in the April 1997 to March 1998 period, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, the growth in the economy.

Major transfers to persons increased \$0.2 billion, solely due to higher elderly benefit payments (up \$0.6 billion), as employment insurance benefit payments were \$0.5 billion lower.

- The higher elderly benefits reflect an increase in the number eligible for benefits and higher average benefits, which are indexed to inflation.
- The decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, primarily reflecting the impact of reform measures and a decline in the number of unemployed.

Major transfers to other levels of government were down \$2.5 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). In contrast, fiscal transfers were up \$0.3 billion.

- In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$2.7 billion over the April 1997 to March 1998 period, compared to the same period last year, of which \$1.8 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. The government has announced that the cash component of the CHST transfer will not fall below \$12.5 billion for the period 1997-98 to 2002-03.

Legislation is currently before Parliament to effect this change. Under the current legislation, the cash transfer was not allowed to fall below \$11 billion.

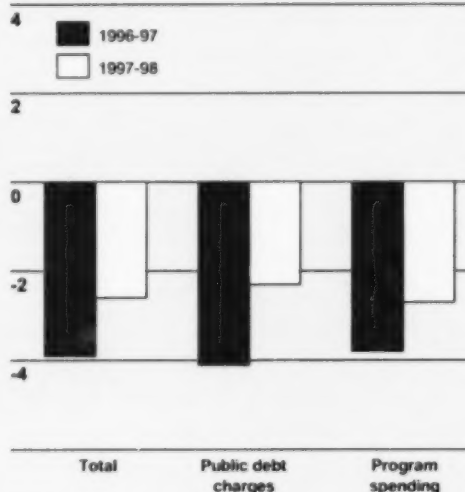
- The increase in fiscal transfers was largely attributable to final payments under the old Established Programs Financing program (since replaced by the CHST) for the year 1995-96. In addition, transfers under the Equalization program were up slightly.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.4 billion in the April 1997 to March 1998 period, compared to the same period last year. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99.

Budgetary expenditures 1996-97 and 1997-98

April to March
Year-over-year growth

per cent change



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Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,841	1,894	21,594	22,212	2.9
Employment insurance benefits	1,176	1,479	12,352	11,897	-3.7
Total	3,017	3,373	33,946	34,109	0.5
Other levels of government					
Canada Health and Social Transfer	1,051	1,103	14,911	12,233	-18.0
Fiscal transfers	607	1,012	9,150	9,446	3.2
Alternative Payments for Standing Programs	-167	-156	-2,012	-2,120	5.4
Total	1,491	1,959	22,049	19,559	-11.3
Subsidies and other transfers					
Agriculture	90	150	899	804	-10.6
Foreign Affairs	338	362	1,881	1,825	-3.0
Human Resources Development	173	272	1,826	1,622	-11.2
Indian and Northern Development	179	221	3,428	3,660	6.8
Industry and Regional Development	278	332	1,725	1,902	10.3
Veterans Affairs	113	114	1,363	1,368	0.4
Other	1,853	1,530	4,554	4,633	1.7
Total	3,024	2,981	15,676	15,814	0.9
Total transfers	7,532	8,313	71,671	69,482	-3.1
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	61	997	863	-13.4
Canada Mortgage and Housing Corporation	197	135	1,898	1,663	-12.4
Other	108	86	1,220	1,080	-11.5
Total	405	282	4,115	3,606	-12.4
Operating and capital expenditures					
Defence	687	811	8,712	8,552	-1.8
All other departmental expenditures	1,810	2,072	17,700	17,797	0.5
Total	2,497	2,883	26,412	26,349	-0.2
Total program expenditures	10,434	11,478	102,198	99,437	-2.7
Public debt charges	3,798	3,730	44,750	43,716	-2.3
Total budgetary expenditures	14,232	15,208	146,948	143,153	-2.6

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Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit (-)/surplus (+)	-1,810	63	-9,636	4,167
Loans, investments and advances				
Crown corporations	-4	148	874	1,243
Other	-54	0	-465	-301
Total	-58	148	409	942
Specified purpose accounts				
Canada Pension Plan Account	467	803	117	459
Superannuation accounts	2,570	2,692	8,751	8,083
Other	87	207	528	26
Total	3,124	3,702	9,396	8,568
Other transactions	-1,099	-2,517	963	-961
Total non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876

Table 5

Financial requirements/surplus and unmatured debt transactions

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	-1,989	-1,810	29,671	11,978
Canada Savings Bonds	-259	-145	2,076	-2,900
Treasury bills	7,000	3,100	-30,700	-23,100
Other	-1	-1	-11	-11
Subtotal	4,751	1,144	1,036	-14,033
Less: Government's holding of unmatured debt	194	98	152	241
Total	4,945	1,242	1,188	-13,792
Payable in foreign currencies				
Marketable bonds	0	629	2,743	3,409
Notes and loans	0	0	0	0
Canada bills	1,410	436	1,450	984
Canada notes	22	-144	1,811	-497
Total	1,432	921	6,004	3,896
Total unmatured debt transactions	6,377	2,163	7,192	-9,896
Change in cash balance	4,476	688	800	980

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Table 6

Cash, unmatured debt and debt balances: at March 31

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	9,254	10,293
In foreign currencies	89	49
Total cash balance	9,343	10,342
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	282,436	294,541
Treasury bills	135,400	112,300
Canada Savings Bonds	33,503	30,593
Other	3,467	3,456
Subtotal	454,806	440,890
Less: Government's holdings of unmatured debt	883	846
Total	453,923	440,044
Payable in foreign currencies		
Marketable bonds	12,257	15,869
Notes and loans	0	0
Canada bills	8,436	9,420
Canada notes	2,121	1,624
Total	22,814	26,913
Total unmatured debt	476,737	466,957

- Within direct program spending, payments to Crown corporations were down \$0.5 billion, while operating and capital expenditures declined \$0.1 billion. These declines primarily reflected the impact of restraint measures, although the net effect was dampened by the timing of payments and the costs associated with the June 1997 general election. Other transfers were up slightly, in part due to expenditures related to the Manitoba flood and the ice storm in eastern Canada.

Public debt charges down \$1.0 billion in April 1997 to March 1998 period

Public debt charges were down \$1.0 billion, or 2.3 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt.

Financial surplus in 1997-98

Although final budgetary results will not be available until the fall of 1998, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. This is because the financial results

measure the difference between cash coming in to the government and cash going out, whereas the budgetary balance results are on a modified accrual basis of accounting. The financial surplus results are usually higher than the budgetary surplus, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. On balance, non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds, over the April 1997 to March 1998 period, amounting to \$8.5 billion, compared to a net source of \$10.8 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

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With a budgetary surplus of \$4.2 billion and a net source of funds from non-budgetary transactions of \$8.5 billion, there was a financial surplus, excluding foreign exchange transactions, of \$12.7 billion as of March 31, 1998. The February 1998 budget estimated a financial surplus, excluding foreign exchange transactions, for 1997-98 of \$12.0 billion. In 1996-97, there was a net source of \$1.1 billion.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Preliminary estimates indicate a net foreign exchange transactions requirement for 1997-98 of \$1.8 billion, compared to a net requirement of \$7.5 billion in 1996-97.

As a result, preliminary estimates suggest that there was a financial surplus, including foreign exchange transactions, of \$10.9 billion in 1997-98, compared to a net requirement of \$6.4 billion in 1996-97.

The federal government retired \$9.9 billion of its market debt. The structure of the government's debt has also changed significantly, in order to further reduce the

exposure to unexpected changes in interest rates.

The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent.

As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates and the low income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: Public Accounts of Canada - 1997

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May 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1998

Budgetary surplus up in April 1998

There was a surplus of \$1.6 billion in April 1998, up \$0.1 billion from the restated estimate for April 1997 (see "Note to users" on next page). Budgetary revenues were up 1.6 per cent, on a year-over-year basis, while public debt charges were down 0.4 per cent. Program spending increased by 1.0 per cent.

The year-over-year increase in budgetary revenues reflected strong advances in personal and corporate income tax collections – the net impact of which was dampened by declines in employment insurance premium revenues and in goods and services tax (GST) collections.

- Personal income tax collections were up 6.4 per cent, or \$0.4 billion, primarily due to strong gains in employment since the beginning of the year and higher taxes paid on filing, related to the 1997 taxation year. The overall increase was dampened by higher tax refunds, up 15.3 per cent, or \$0.6 billion.
- Corporate income tax collections were up 7.4 per cent, or \$0.1 billion.
- Employment insurance premium revenues were down 5.2 per cent, or \$0.1 billion. This was attributable to lower premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997. The decline in premium rates more than offsets the impact of the increase in the number of employed on overall premium revenues.
- Net GST collections fell 8.9 per cent, or \$0.2 billion, as higher refunds and rebates more than offset a strong growth in gross collections.
- The other components of revenues were relatively unchanged from last year's level.

The increase in program spending was largely attributable to higher subsidies and other transfers related to obligations under the Bretton Woods and Related Agreements and compensation payments related to the ice storm in eastern Canada. Among the other components:

- Major transfers to persons were up slightly as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were down slightly, primarily due to recoveries under Alternative Payments for Standing Programs. Cash transfers under the Canada Health and Social Transfer were unchanged as legislation prevents the annual cash component of this transfer from falling below \$12.5 billion for the period 1997-98 to 2002-03.
- Payments to Crown corporations were unchanged while operating and capital expenditures were lower, reflecting the impact of the 1996 budget restraint measures.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt and lower average effective interest rates on that stock.



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Table 1

Summary statement of transactions

	April	
	1997	1998
	(millions of dollars)	
Budgetary transactions		
Revenue	12,302	12,500
Program spending	-7,386	-7,462
Operating surplus	4,916	5,038
Public debt charges	-3,467	-3,454
Deficit/surplus	1,449	1,584
Non-budgetary transactions	-4,444	-3,856
Financial requirements/surplus (excluding foreign exchange transactions)	-2,995	-2,272
Foreign exchange transactions	3,589	1,287
Total financial requirements/surplus	594	-985
Unmatured debt transactions	-5,092	-5,557

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Total financial requirement up in April 1998

Despite a budgetary surplus of \$1.6 billion, total financial requirements amounted to \$1.0 billion in April 1998, compared to a financial surplus of \$0.6 billion in April 1997. This was attributable to a lower net source of funds from foreign exchange transactions. In April 1998, foreign exchange transactions provided the government with a net source of funds amounting to \$1.3 billion, compared to a net source of \$3.6 billion in April 1997. Non-budgetary transactions resulted in a net requirement of \$3.9 billion in April 1998, down from a net requirement of \$4.4 billion in April 1997.

Market debt lower

The government retired \$5.6 billion of market debt in April 1998 by reducing its cash balances. In total, cash balances were reduced by \$6.5 billion.

Note to users

With this *Fiscal Monitor*, a number of accounting adjustments are being introduced to make the monthly budgetary results more reflective of current developments and to reduce the magnitude of the end-of-year adjustments. The monthly results for 1997-98 are being restated so that year-over-year comparisons can be made. These changes will have no impact on financial requirements/surpluses. The changes largely respond to suggestions made in Chapter 3 of the Auditor General's April 1997 report.

The remittance date for some revenue sources (particularly the GST) is the last day of the month. This means that most of these revenues are not deposited with the government until the first banking day of the following month. If the last remittance day of the month falls on a statutory holiday or on a weekend, these revenues are often not deposited with the government until the second banking day of the following month.

The Fiscal Monitor

Table 2

Budgetary revenues

	April		Per cent change
	1997	1998	
	(millions of dollars)		(%)
Income taxes			
Personal income tax	5,835	6,209	6.4
Corporate income tax	1,156	1,241	7.4
Other income tax revenue	297	286	-3.7
Total income tax	7,288	7,736	6.1
Employment insurance premium revenues	1,844	1,748	-5.2
Excise taxes and duties			
Goods and services tax	1,979	1,803	-8.9
Customs import duties	153	174	13.7
Sales and excise taxes	666	621	-6.8
Total excise taxes and duties	2,798	2,598	-7.1
Total tax revenues	11,930	12,082	1.3
Non-tax revenues	372	418	12.4
Total budgetary revenues	12,302	12,500	1.6

Although adjustments are made at year end to allocate such revenues to the appropriate fiscal year, up to now such adjustments were not made on a monthly basis. As a result, the revenue numbers, particularly for April, were significantly understated with adjustments only made at the end of the fiscal year – in the year-end accounting period. In addition, there were often large year-over-year variations in the recording of revenues on a monthly basis due solely to the timing of such remittances, making analysis of the current results difficult. Therefore, the cut-off date for revenues applicable to the current month has been changed from the last day of the month to the end of the second banking day of the next month.

Although budgetary expenditures are on an accrual basis of accounting, a number of adjustments in the past were only made at year end. These included the accrual of wages and salaries and the amortization of actuarial balances in the public service pension accounts, among others. Such adjustments will now be made on a monthly basis, provided reasonable estimates can be made.

These changes will put the monthly results on an accounting basis that more closely approximates that used in the final fiscal year results.

The Fiscal Monitor

Table 3

Budgetary expenditures

	April		Per cent change
	1997	1998	
	(millions of dollars)		(%)
Transfer payments to:			
Persons			
Elderly benefits	1,790	1,821	1.7
Employment insurance benefits	1,134	1,114	-1.8
Total	2,924	2,935	0.4
Other levels of government			
Canada Health and Social Transfer	1,042	1,042	0.0
Fiscal transfers	638	642	0.6
Alternative Payments for Standing Programs	-178	-187	5.1
Total	1,502	1,497	-0.3
Subsidies and other transfers			
Agriculture	4	5	25.0
Foreign Affairs	49	100	104.1
Health	68	84	23.5
Human Resources Development	52	58	11.5
Indian and Northern Development	716	778	8.7
Industry and Regional Development	79	72	-8.9
Veterans Affairs	112	114	1.8
Other	200	190	-5.0
Total	1,280	1,401	9.5
Total transfers	5,706	5,833	2.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	112	147	31.3
Canada Mortgage and Housing Corporation	139	125	-10.1
Other	137	116	-15.3
Total	388	388	0.0
Operating and capital expenditures			
Defence	355	346	-2.5
All other departmental expenditures	937	895	-4.5
Total	1,292	1,241	-3.9
Total program expenditures	7,386	7,462	1.0
Public debt charges	3,467	3,454	-0.4
Total budgetary expenditures	10,853	10,916	0.6

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Table 4

The budgetary balance and financial balance

	April	
	1997	1998
	(millions of dollars)	
Deficit (-)/surplus (+)	1,449	1,584
Loans, investments and advances		
Crown corporations	-253	101
Other	22	93
Total	-231	194
Specified purpose accounts		
Canada Pension Plan Account	513	599
Superannuation accounts	406	565
Other	-26	-40
Total	893	1,124
Other transactions	-5,106	-5,174
Total non-budgetary transactions	-4,444	-3,856
Financial requirements/surplus (excluding foreign exchange transactions)	-2,995	-2,272
Foreign exchange transactions	3,589	1,287
Total financial requirements/surplus	594	-985

Table 5

Financial balance and unmatured debt transactions

	April	
	1997	1998
	(millions of dollars)	
Total financial requirements/surplus	594	-985
Unmatured debt transactions		
Payable in Canadian dollars		
Marketable bonds	0	0
Canada Savings Bonds	-289	-629
Treasury bills	-3,700	-4,200
Other	-1	-1
Subtotal	-3,990	-4,830
Less: Government's holdings of unmatured debt	143	90
Total	-3,847	-4,740
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-940	-817
Canada notes	-305	0
Total	-1,245	-817
Total unmatured debt transactions	-5,092	-5,557
Change in cash balance	-4,498	-6,542

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	April 30, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	3,741
In foreign currencies	49	8
Total cash balance	10,292	3,749
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	294,541
Treasury bills	112,300	108,100
Canada Savings Bonds	30,593	29,964
Other	3,456	3,455
Subtotal	440,890	436,060
<i>Less: Government's holdings of unmatured debt</i>	<i>846</i>	<i>756</i>
Total	440,044	435,304
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,603
Canada notes	1,624	1,624
Total	26,913	26,096
Total unmatured debt	466,957	461,400

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1998

Budgetary surplus of \$2.7 billion recorded in June 1998

A budgetary surplus of \$2.7 billion was recorded in June 1998, unchanged from the restated estimate for June 1997. A small increase in budgetary revenues and decline in program spending were offset by an increase in public debt charges.

Within budgetary revenues, increases in corporate and other income taxes, coupled with higher excise taxes and duties were largely offset by declines in the other components. Within program spending, declines in employment insurance benefits and subsidies and other transfers more than offset increases in elderly benefits, payments to Crown corporations and in departmental operating and capital expenditures. The increase in public debt charges was due to higher average effective interest rates, reflecting changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus of \$5.7 billion

Over the first three months (April to June) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$5.7 billion, up \$1.6 billion from the surplus of \$4.1 billion estimated for the same period last year. This increase was primarily attributable to the continued strength in the economy. Budgetary revenues were up \$1.8 billion (4.9 per cent). Program spending declined \$0.1 billion (0.4 per cent). In contrast, public debt charges were up \$0.3 billion, or 3.0 per cent.

Year-to-date: financial surplus of \$5.8 billion

The financial surplus amounted to \$5.8 billion in the first three months of 1998-99, compared to a surplus of \$0.6 billion in the same period last year. This year-over-year improvement of \$5.2 billion was attributable to a \$2.6 billion change in the net source of funds from foreign exchange transactions, \$1.6 billion from the improvement in the budgetary balance and \$1.0 billion from the lower non-budgetary transactions requirement.

With this financial surplus and a reduction in cash balances of \$4.0 billion, the government retired \$9.8 billion of market debt in the first three months of 1998-99.



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Table 1

Summary statement of transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	13,861	13,927	36,951	38,779
Program spending	-7,807	-7,761	-22,646	-22,548
Operating surplus	6,054	6,166	14,305	16,231
Public debt charges	-3,367	-3,464	-10,207	-10,510
Deficit/surplus	2,687	2,702	4,098	5,721
Non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balances	1,007	1,404	-5,392	-4,017

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up \$1.8 billion in April 1998 to June 1998 period

Over the April to June 1998 period, budgetary revenues were up \$1.8 billion, or 4.9 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

- Personal income tax collections were up \$1.3 billion, or 7.3 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. The results to date were dampened somewhat by higher personal income refunds related to the 1997 taxation year, as the number of tax returns processed to the end of June 1998 was significantly more than in the same period last year. This was especially applicable in June 1998, as higher refunds depressed net collections.
- Corporate income tax collections were up \$0.7 billion, or 16.8 per cent, reflecting lower refunds and continued strength in corporate

profits in certain sectors of the economy.

In addition, part of the increase was due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly installments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts outstanding. This results in over 30 per cent of corporate income tax collections being received in the months of February and March. Monthly installments for 1997 were largely based on 1996 liabilities. However, tax liabilities for 1997 were significantly higher than in 1996, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, installment payments for 1997 understated the actual tax liability for the year as a whole. Installments for 1998 have been increased to reflect 1997 tax liabilities, which accounts for part of the current increase in net collections.

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Table 2

Budgetary revenues

	June		April to June		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,635	6,562	17,763	19,065	7.3
Corporate income tax	1,578	1,831	4,038	4,716	16.8
Other income tax revenue	154	184	574	613	6.8
Total income tax	8,367	8,577	22,375	24,394	9.0
Employment insurance premium revenues	1,862	1,775	5,564	5,318	-4.4
Excise taxes and duties					
Goods and services tax	1,987	2,050	4,814	5,097	5.9
Customs import duties	109	185	488	504	3.3
Sales and excise taxes	816	804	2,157	2,118	-1.8
Total excise taxes and duties	2,912	3,039	7,459	7,719	3.5
Total tax revenues	13,141	13,391	35,398	37,431	5.7
Non-tax revenues	720	536	1,553	1,348	-13.2
Total budgetary revenues	13,861	13,927	36,951	38,779	4.9

- Employment insurance premium revenues were down \$0.2 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997 (with a comparable decline in the employer rate).
- Net GST collections were up \$0.3 billion, or 5.9 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were down slightly, primarily due to the reduction in the air transport tax effective January 1, 1998.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.2 billion or 13.2 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Program spending down slightly in April to June 1998 period

Program spending declined by \$0.1 billion, or 0.4 per cent, in the April to June 1998 period, compared to the same period last year. Most of this decline was concentrated in direct program spending, reflecting the impact of Program Review reductions announced in the 1996 budget.

Major transfers to persons were virtually unchanged, as lower employment insurance benefits were largely offset by high elderly benefit payments.

- The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.
- The decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.

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Major transfers to other levels of government were down slightly, solely due to recoveries under Alternative Payments for Standing Programs.

- Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

Fiscal transfers, primarily consisting of payments under the Equalization program and transfers to the territories were virtually unchanged from the same period last year.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.1 billion in the April to June 1998 period, compared to the same period last year. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments and the effect of the Program Review reductions announced in the 1996 budget.

Public debt charges up \$0.3 billion in April to June 1998 period

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt. Although the stock of market debt (unmatured debt) was lower at the end of June 1998 than in the same period last year, the overall stock of interest-bearing debt was virtually unchanged, reflecting the increase in obligations to the public service pension plans. The latter is credited with the long-term Government of Canada bond rate.

Financial surplus of \$5.8 billion in April to June 1998 period

Financial surplus/requirements measure the difference between cash coming in to the government and cash going out. The financial surplus differs from the budgetary surplus, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.6 billion in the April to June 1998 period, compared to a net requirement of \$4.6 billion in the same period last year. The lower requirement this year primarily reflected a higher source of funds in the superannuation accounts.

With a budgetary surplus of \$5.7 billion and a net requirement of \$3.6 billion in non-budgetary transactions, there was a financial surplus, excluding foreign exchange transactions, of \$2.1 billion in the first three months of 1998-99. This compares to a net requirement of \$0.5 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. In the April to June 1998 period, foreign exchange transactions provided the government with a net source of funds amounting to \$3.6 billion, compared to \$1.0 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$5.8 billion in the first three months of 1998-99, compared to a surplus of \$0.6 billion a year earlier.

In the first three months of 1998-99, the federal government retired \$9.8 billion of its market debt, primarily Treasury bills.

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Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,853	1,868	5,470	5,567	1.8
Employment insurance benefits	846	804	2,914	2,799	-3.9
Total	2,699	2,672	8,384	8,366	-0.2
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	3,125	3,125	0.0
Fiscal transfers	776	776	2,311	2,315	0.2
Alternative Payments for Standing Programs	-178	-186	-533	-560	5.1
Total	1,640	1,632	4,903	4,880	-0.5
Direct program spending					
Subsidies and other transfers					
Agriculture	59	42	75	56	-25.3
Foreign Affairs	164	98	348	263	-24.4
Health	66	94	197	239	21.3
Human Resources Development	211	208	403	436	8.2
Indian and Northern Development	313	312	1,288	1,306	1.4
Industry and Regional Development	104	105	267	238	-10.9
Veterans Affairs	114	112	342	339	-0.9
Other	234	144	619	502	-18.9
Total	1,265	1,115	3,539	3,379	-4.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	60	249	230	-7.6
Canada Mortgage and Housing Corporation	115	157	364	457	25.5
Other	86	70	292	244	-16.4
Total	267	287	905	931	2.9
Operating and capital expenditures					
Defence	683	679	1,658	1,583	-4.5
All other departmental expenditures	1,253	1,376	3,257	3,409	4.7
Total	1,936	2,055	4,915	4,992	1.6
Total direct program spending	3,468	3,457	9,359	9,302	-0.6
Total program expenditures	7,807	7,761	22,646	22,548	-0.4
Public debt charges	3,367	3,464	10,207	10,510	3.0
Total budgetary expenditures	11,174	11,225	32,853	33,058	0.6
Memorandum item:					
Total transfers	5,604	5,419	16,826	16,625	-1.2

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Table 4

The budgetary balance and financial requirements/surplus

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Deficit (-)/surplus (+)	2,687	2,702	4,098	5,721
Loans, investments and advances				
Crown corporations	-31	28	-74	155
Other	-58	-190	7	15
Total	-89	-162	-67	170
Specified purpose accounts				
Canada Pension Plan Account	-35	-451	1,169	998
Superannuation accounts	-126	591	792	1,642
Other	-168	-21	-210	-45
Total	-329	119	1,751	2,595
Other transactions	-2,778	-3,887	-6,265	-6,362
Total non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,614	6,323	9,438	10,223
Canada Savings Bonds	-340	-544	-927	-1,537
Treasury bills	-5,400	-4,500	-15,000	-17,600
Other	450	1,001	447	1,056
Subtotal	1,324	2,280	-6,042	-7,858
Less: Government's holdings of unmatured debt	106	93	362	272
Total	1,430	2,373	-5,680	-7,586
Payable in foreign currencies				
Marketable bonds	0	0	0	0
Notes and loans	0	0	0	0
Canada bills	625	-123	-277	-1,403
Canada notes	305	-781		-781
Total	930	-904	-277	-2,184
Total unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balance	1,007	1,404	-5,392	-4,017

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	June 30, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	6,269
In foreign currencies	49	2
Total cash balance	10,292	6,271
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	94,700
Canada Savings Bonds	30,593	29,056
Other	3,456	4,512
Subtotal	440,890	433,032
Less: Government's holdings of unmatured debt	846	574
Total	440,044	432,458
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,018
Canada notes	1,624	843
Total	26,913	24,730
Total unmatured debt	466,957	457,188

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account

can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: Public Accounts of Canada - 1997

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August 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1998

Budgetary surplus of \$1.6 billion recorded in July 1998

A budgetary surplus of \$1.6 billion was recorded in July 1998, down slightly from the surplus of \$1.9 billion reported for July 1997. The decline in the monthly surplus, on a year-over-year basis, was attributable to an increase in program spending (up 3.3 per cent) and higher corporate and goods and services tax (GST) refunds.

Budgetary revenues were virtually unchanged, as the higher refunds and a decline in employment insurance premium revenues offset a strong advance in personal income tax collections.

- Personal income tax collections were up 13.4 per cent in July 1998 over July 1997, reversing the year-over-year decline reported in June 1998. Part of the increase in July 1998 was attributable to the timing of receipts between June and July.
- Both corporate income tax and GST collections were down (14.4 per cent and 14.6 per cent respectively) reflecting higher refunds being paid in July 1998 than in the same period last year.
- Employment insurance premium revenues were down 4.6 per cent, reflecting the decline in premium rates for 1998.

The increase in program spending was primarily attributable to higher elderly benefit and employment insurance benefit payments.

- Elderly benefit payments were up 6 per cent, reflecting an increase in the number of beneficiaries and higher average benefits, which are indexed to inflation.

- Employment insurance benefit payments were up 6.5 per cent, as higher payments for employment and support measures offset declines in regular benefit payments. The decline in the latter was attributable to fewer people being unemployed.
- Transfers to other levels of government and direct program spending were marginally higher.

Public debt charges were up marginally, due to an increase in the average effective interest rate on the government's interest-bearing debt, reflecting both the impacts of higher short-term rates and changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus up \$1.4 billion

Over the first four months (April to July) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$7.4 billion, up \$1.4 billion from the surplus of \$6.0 billion estimated for the same period last year. Budgetary revenues were up \$1.8 billion (3.7 per cent). Program spending was up \$0.2 billion (0.5 per cent), while public debt charges were up \$0.3 billion (2.4 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$2.1 billion, or 8.8 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed.
- Corporate income tax collections were up \$0.4 billion, or 7.0 per cent, reflecting lower refunds and higher gross collections, due to continued strength in corporate profits in certain sectors of the economy.



Department of Finance
Canada

Ministère des Finances
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Canada

The Fiscal Monitor

Table 1

Summary statement of transactions¹

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	13,040	13,052	49,992	51,831
Program spending	-7,707	-7,958	-30,353	-30,507
Operating balance	5,333	5,094	19,639	21,324
Public debt charges	-3,423	-3,448	-13,629	-13,958
Deficit/surplus	1,910	1,646	6,010	7,366
Non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance (excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings	-4,919	880	-10,875	-8,892
Net change in cash balances	-325	-1,437	-5,713	-5,458

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Employment insurance premium revenues were down \$0.3 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate).
- Net GST collections were virtually unchanged from the same period last year, as higher refunds and rebates offset a strong increase in gross collections.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up marginally, as the reduction in the air transportation tax, effective January 1, 1998, largely offset increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.4 billion or 18.3 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.1 billion, as higher elderly benefit payments offset a decline in employment insurance benefit payments. The decline in employment insurance benefit payments was due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.
- Major transfers to other levels of government were up slightly, due to higher equalization transfers. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was virtually unchanged, on a year-over-year basis.

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Table 2

Budgetary revenues

	July		April to July		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,865	6,649	23,627	25,715	8.8
Corporate income tax	1,850	1,584	5,887	6,301	7.0
Other income tax revenue	300	220	875	833	-4.8
Total income tax	8,015	8,453	30,389	32,849	8.1
Employment insurance premium revenues	1,815	1,732	7,378	7,051	-4.4
Excise taxes and duties					
Goods and services tax	1,809	1,545	6,624	6,642	0.3
Customs import duties	222	251	710	756	6.5
Sales and excise taxes	662	724	2,819	2,843	0.9
Total excise taxes and duties	2,693	2,520	10,153	10,241	0.9
Total tax revenues	12,523	12,705	47,920	50,141	4.6
Non-tax revenues	517	347	2,072	1,690	-18.4
Total budgetary revenues	13,040	13,052	49,992	51,831	3.7

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt and increases in short-term interest rates.

Financial surplus of \$3.4 billion

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, the financial balance – requirements/surplus – measures the difference between cash coming in to the government and cash going out. The financial balance differs from the budgetary balance,

as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions. Finally, the financial balance also includes net foreign exchange transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April to July 1998 period, compared to a net requirement of \$4.8 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$2.2 billion in the first four months of 1998-99, up from \$1.2 billion in the same period last year.

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by

The Fiscal Monitor

Table 3

Budgetary expenditures

	July		April to July		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,820	1,929	7,290	7,497	2.8
Employment insurance benefits	820	873	3,734	3,671	-1.7
Total	2,640	2,802	11,024	11,168	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	4,167	4,167	0.0
Fiscal transfers	768	817	3,079	3,132	1.7
Alternative Payments for Standing Programs	-178	-187	-710	-747	5.2
Total	1,632	1,672	6,536	6,552	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	37	74	112	130	16.1
Foreign Affairs	110	107	458	370	-19.2
Health	64	84	262	324	23.7
Human Resources Development	7	73	409	509	24.4
Indian and Northern Development	281	271	1,569	1,578	0.6
Industry and Regional Development	93	105	360	343	-4.7
Veterans Affairs	117	114	459	453	-1.3
Other	183	185	802	686	-14.5
Total	892	1,013	4,431	4,393	-0.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	60	314	290	-7.6
Canada Mortgage and Housing Corporation	156	140	520	597	14.8
Other	68	121	360	365	1.4
Total	289	321	1,194	1,252	4.9
Operating and capital expenditures					
Defence	755	715	2,413	2,298	-4.8
All other departmental expenditures	1,499	1,435	4,755	4,844	1.9
Total	2,254	2,150	7,168	7,142	-0.4
Total direct program spending	3,435	3,484	12,793	12,787	0.0
Total program expenditures	7,707	7,958	30,353	30,507	0.5
Public debt charges	3,423	3,448	13,629	13,958	2.4
Total budgetary expenditures	11,130	11,406	43,982	44,465	1.1
Memorandum item:					
Total transfers	5,164	5,487	21,991	22,113	0.6

The Fiscal Monitor

Table 4

The budgetary balance and financial balance

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	1,910	1,646	6,010	7,366
Loans, investments and advances				
Crown corporations	157	392	83	547
Other	62	38	69	53
Total	219	430	152	600
Specified purpose accounts				
Canada Pension Plan Account	-479	-514	690	484
Superannuation accounts	339	-414	1,131	1,228
Other	15	-13	-195	-57
Total	-125	-941	1,626	1,655
Other transactions	-332	-1,032	-6,596	-7,395
Total non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance				
(excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434

Table 5

Net financial balance and net borrowings

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-4,200	0	5,238	10,223
Canada Savings Bonds	-280	-283	-1,207	-1,821
Treasury bills	1,700	-3,100	-13,300	-20,700
Other	386	515	833	1,571
Subtotal	-2,394	-2,868	-8,436	-10,727
Less: Government's holdings of unmatured debt	167	94	530	365
Total	-2,227	-2,774	-7,906	-10,362
Payable in foreign currencies				
Marketable bonds	-776	3,494	-776	3,494
Notes and loans	0	0	0	0
Canada bills	-1,590	252	-1,867	-1,151
Canada notes	-326	-92	-326	-873
Total	-2,692	3,654	-2,969	1,470
Net change in borrowings	-4,919	880	-10,875	-8,892
Change in cash balances	-325	-1,437	-5,713	-5,458

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	July 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	4,825
In foreign currencies	49	9
Total cash balances	10,292	4,834
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	91,600
Canada Savings Bonds	30,593	28,816
Other	3,456	5,027
Subtotal	440,890	430,207
Less: Government's holdings of unmatured debt	846	486
Total	440,044	429,721
Payable in foreign currencies		
Marketable bonds	15,869	19,363
Notes and loans	0	0
Canada bills	9,420	8,205
Canada notes	1,624	751
Total	26,913	28,319
Total unmatured debt	466,957	458,040

buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, in the first four months of 1998-99, there was a net source of funds of \$1.2 billion from foreign exchange transactions, down from \$3.9 billion in the same period last year.

With a budgetary surplus of \$7.4 billion, a net requirement of \$5.1 billion from non-budgetary transactions, and a net source of funds of \$1.2 billion from foreign exchange transactions, the net financial surplus, over the April to July 1998 period, amounted to \$3.4 billion, compared to \$5.2 billion in the same period last year.

With this financial surplus, coupled with a reduction in the cash balances of \$5.4 billion, the government retired \$8.8 billion of market debt in the first four months of 1998-99.



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1998

Budgetary surplus of \$0.6 billion recorded in August 1998

A budgetary surplus of \$0.6 billion was recorded in August 1998, compared to a budgetary deficit of \$0.2 billion in August 1997. This improvement in the budgetary balance, on a year-over-year basis, was attributable to an increase in budgetary revenues (up 8.8 per cent) and a decline in public debt charges (down 8.4 per cent). Program spending increased by 5.9 per cent.

The increase in budgetary revenues in August 1998, on a year-over-year basis, was primarily attributable to higher goods and services tax (GST) and corporate income tax collections.

- GST collections were up 34 per cent, reversing the decline recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In August 1998, refunds were down sharply.
- Corporate income tax collections were up 19.1 per cent, reflecting an increase in gross remittances and a decline in refunds.

The decline in public debt charges was due to adjustments for overstatements in previous months.

The increase in program spending was primarily attributable to higher transfers to persons and direct program spending.

- The increase in transfers to persons (up 3.9 per cent) was largely attributable to the timing of employment insurance benefit cheques.
- The increase in direct program spending (up 10.2 per cent) primarily reflected the timing of subsidy and other transfer payments and non-salary departmental expenditures.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first five months (April to August) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$8.0 billion, up \$2.1 billion from the same period last year. Budgetary revenues were up \$2.8 billion (4.6 per cent), program spending was up \$0.6 billion (1.6 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 7.8 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed.
- Corporate income tax collections were up \$0.6 billion, or 9.0 per cent, reflecting lower refunds and higher gross collections due to continued strength in corporate profits in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.4 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate).
- GST collections were up \$0.5 billion, or 6.1 per cent, in line with the growth in consumer demand.
- Customs import duties were up slightly as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up 2.6 per cent as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.



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The Fiscal Monitor

Table 1

Summary statement of transactions¹

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	10,891	11,845	60,883	63,676
Program spending	-7,650	-8,099	-38,003	-38,606
Operating balance	3,241	3,746	22,880	25,070
Public debt charges	-3,410	-3,124	-17,039	-17,082
Deficit/surplus	-169	622	5,841	7,988
Non-budgetary transactions	467	1,730	-4,353	-3,410
Financial balance (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings	-153	1,577	-11,028	-7,314
Net change in cash balances	48	9,610	-5,667	4,153

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Non-tax revenues, consisting of a return on investments and other non-tax revenues such as fees and proceeds from sales, among others, were down \$0.3 billion or 13.3 per cent. This component of revenues is quite volatile, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.2 billion, primarily due to higher elderly benefit payments. Employment benefit payments were virtually unchanged as the impact of the decline in the number of beneficiaries, reflecting the decline in the number of unemployed, was offset by the timing of payments in the month of August.
- Major transfers to other levels of government were virtually unchanged. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this

cash entitlement floor and a rising value in tax point transfers, total entitlements under the CHST are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.3 billion, or 2.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

Public debt charges were virtually unchanged as declines in the overall stock of interest-bearing debt were offset by a slight increase in the average effective interest rate due to changes in the composition of interest-bearing debt and increases in short-term interest rates.

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Table 2

Budgetary revenues

	August		April to August		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,199	5,360	28,826	31,074	7.8
Corporate income tax	1,160	1,381	7,047	7,682	9.0
Other income tax revenue	150	222	1,025	1,055	2.9
Total income tax	6,509	6,963	36,898	39,811	7.9
Employment insurance premium revenues	1,677	1,607	9,055	8,658	-4.4
Excise taxes and duties					
Goods and services tax	1,396	1,870	8,020	8,512	6.1
Customs import duties	319	277	1,029	1,033	0.4
Sales and excise taxes	708	780	3,528	3,621	2.6
Total excise taxes and duties	2,423	2,927	12,577	13,166	4.7
Total tax revenues	10,609	11,497	58,530	61,635	5.3
Non-tax revenues	282	348	2,353	2,041	-13.3
Total budgetary revenues	10,891	11,845	60,883	63,676	4.6

Year-to-date: financial surplus of \$4.6 billion

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$3.4 billion in the April to August 1998 period, compared to a net requirement of \$4.4 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.6 billion in the first five months of 1998-99, up from \$1.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$7.3 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is

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Table 3

Budgetary expenditures

	August		April to August		Per cent change
	1997	1998	1997-98	1998-99	(%)
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,858	1,888	9,148	9,385	2.6
Employment insurance benefits	836	911	4,569	4,582	0.3
Total	2,694	2,799	13,717	13,967	1.8
Other levels of government					
Canada Health and Social Transfer	1,041	1,042	5,208	5,208	0.0
Fiscal transfers	769	782	3,848	3,913	1.7
Alternative Payments for Standing Programs	-178	-187	-888	-934	5.2
Total	1,632	1,637	8,168	8,187	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	34	93	146	223	52.7
Foreign Affairs	127	145	585	515	-12.0
Health	73	90	335	414	23.6
Human Resources Development	86	174	495	683	38.0
Indian and Northern Development	248	305	1,817	1,883	3.6
Industry and Regional Development	134	153	494	496	0.4
Veterans Affairs	112	113	570	566	-0.7
Other	173	132	975	818	-16.1
Total	987	1,205	5,417	5,598	3.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	44	379	334	-11.9
Canada Mortgage and Housing Corporation	119	150	639	747	16.9
Other	108	43	469	408	-13.0
Total	292	237	1,487	1,489	0.1
Operating and capital expenditures					
Defence	750	776	3,162	3,074	-2.8
All other departmental expenditures	1,295	1,445	6,052	6,291	3.9
Total	2,045	2,221	9,214	9,365	1.6
Total direct program spending	3,324	3,663	16,118	16,452	2.1
Total program expenditures	7,650	8,099	38,003	38,606	1.6
Public debt charges	3,410	3,124	17,039	17,082	0.3
Total budgetary expenditures	11,060	11,223	55,042	55,688	1.2
Memorandum item:					
Total transfers	5,313	5,641	27,302	27,752	1.6

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Table 4

The budgetary balance and financial requirements/surplus

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	-169	622	5,841	7,988
Loans, investments and advances				
Crown corporations	57	62	140	609
Other	61	106	130	159
Total	118	168	270	768
Specified purpose accounts				
Canada Pension Plan Account	-289	-122	400	361
Superannuation accounts	-446	300	685	1,528
Other	-76	52	-272	-5
Total	-811	230	813	1,884
Other transactions	1,160	1,332	-5,436	-6,062
Total non-budgetary transactions	467	1,730	-4,353	-3,410
Financial requirements/surplus (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467

Table 5

Net financial balance and net borrowings

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,600	2,300	8,838	12,523
Canada Savings Bonds	-237	-196	-1,444	-2,017
Treasury bills	-4,600	-2,100	-17,900	-22,800
Other	-1	-24	832	1,547
Subtotal	-1,238	-20	-9,674	-10,747
Less: Government's holdings of unmatured debt	107	89	638	455
Total	-1,131	69	-9,036	-10,292
Payable in foreign currencies				
Marketable bonds	61	75	-716	3,569
Notes and loans	0	0	0	0
Canada bills	917	1,433	-950	282
Canada notes			-326	-873
Total	978	1,508	-1,992	2,978
Net change in borrowings	-153	1,577	-11,028	-7,314
Change in cash balances	48	9,610	-5,667	4,153

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	August 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,541	14,374
In foreign currencies	156	70
Total cash balances	3,697	14,444
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	89,500
Treasury bills	112,300	28,618
Canada Savings Bonds	30,593	28,816
Other	3,456	5,003
Subtotal	440,890	430,185
Less: Government's holdings of unmatured debt	846	398
Total	440,044	429,787
Payable in foreign currencies		
Marketable bonds	15,869	19,438
Notes and loans	0	0
Canada bills	9,420	9,638
Canada notes	1,624	751
Total	26,913	29,827
Total unmatured debt	466,957	459,614

downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, in the first five months of 1998-99, there was a net source of funds of \$6.9 billion from foreign exchange transactions, up from a source of \$3.9 billion in the same period last year.

With a budgetary surplus of \$8.0 billion, a net requirement of \$3.4 billion from non-budgetary transactions, and a net source of funds of \$6.9 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion over the April to August 1998 period, compared to \$5.4 billion in the same period last year.

With this net financial balance, the government retired \$7.3 billion of market debt in the first five months of 1998-99 and increased its cash balances by \$4.2 billion.



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for September 1998

Budgetary surplus down slightly in September 1998

A budgetary surplus of \$2.4 billion was recorded in September 1998, down slightly from the surplus of \$2.5 billion recorded in the same period last year. On a year-over-year basis, budgetary revenues declined 0.7 per cent, program spending was up 0.8 per cent, while public debt charges were 2.3 per cent lower.

The decline in budgetary revenues in September 1998, on a year-over-year basis, was primarily attributable to lower goods and services tax (GST) revenues.

- Net GST revenues were down \$0.3 billion or 14.5 per cent, reversing the increase recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In September 1998, refunds were up sharply due to an extra processing cycle compared to the same period last year.
- Personal income tax revenues were down \$0.2 billion, or 3.4 per cent. However, this entire decline was attributable to a transfer from personal income tax collections to employment insurance premium revenues, relating to an adjustment with respect to taxation year 1997. On a monthly basis, employers remit gross tax deductions from employees, including federal and personal income tax deductions, and employment insurance and Canada Pension Plan premiums. These are initially allocated to

the respective components using estimates, with adjustments made once annual tax data become available. The transfer made in September accounted for all of the increase in employment insurance premium revenues. Without this transfer, employment insurance premium revenues would have been lower, reflecting the decline in premium rates for 1998.

- Corporate income tax collections were up \$0.2 billion, or 13.0 per cent, reflecting a strong increase in gross remittances and a slight decline in refunds.
- Non-tax revenues were up \$0.2 billion or 43.1 per cent. This component is quite volatile, reflecting the timing of receipts.

The increase in program spending was primarily attributable to higher operating and capital expenditures, mainly due to the timing of expenditures. Among the other components:

- Employment insurance benefits were down 8.8 per cent, reversing the increase reported last month. This primarily reflected the timing of cheques over these two months.
- Transfers to other levels of government and subsidies and other transfers were up marginally, while payments to Crown corporations were lower.

The decline in public debt charges was primarily attributable to a lower stock of interest-bearing debt.



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Table 1

Summary statement of transactions¹

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	13,732	13,633	74,615	77,309
Program spending	-7,765	-7,830	-45,768	-46,437
Operating surplus	5,967	5,803	28,847	30,872
Public debt charges	-3,456	-3,376	-20,495	-20,457
Deficit/surplus	2,511	2,427	8,352	10,415
Non-budgetary transactions	-856	-1,385	-5,209	-4,795
Financial requirements/surplus (excluding foreign exchange transactions)	1,655	1,042	3,143	5,620
Foreign exchange transactions	-585	-1,054	3,288	5,835
Net financial balance	1,070	-12	6,431	11,455
Net increase(+)/decrease (-) in borrowings	-1,991	-9,109	-13,019	-16,424
Net change in cash balances	-921	-9,121	-6,588	-4,969

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

¹ There has been some confusion concerning the two main measures of the the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first six months (April to September) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$10.4 billion, up \$2.1 billion from the surplus of \$8.4 billion recorded over the first six months of 1997-98. Budgetary revenues were up \$2.7 billion (3.6 per cent), program spending was up \$0.7 billion (1.5 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.6 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. Revenues to date were

adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.

- Corporate income tax revenues were up \$0.8 billion, or 9.6 per cent, primarily reflecting higher gross collections, due to continued strength in corporate profits in certain sectors of the economy. In addition, part of the increase may be due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total

Table 2

Budgetary revenues

	September		April to September		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,071	6,831	35,897	37,905	5.6
Corporate income tax	1,235	1,395	8,282	9,077	9.6
Other income tax revenue	175	55	1,200	1,110	-7.5
Total income tax	8,481	8,281	45,379	48,092	6.0
Employment insurance premium revenues	1,538	1,764	10,593	10,422	-1.6
Excise taxes and duties					
Goods and services tax	2,172	1,858	10,191	10,370	1.8
Customs import duties	240	256	1,269	1,289	1.6
Sales and excise taxes	816	780	4,343	4,402	1.4
Total excise taxes and duties	3,228	2,894	15,803	16,061	1.6
Total tax revenues	13,247	12,939	71,775	74,575	3.9
Non-tax revenues	485	694	2,840	2,734	-3.7
Total budgetary revenues	13,732	13,633	74,615	77,309	3.6

collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for current strength in corporate income tax collections.

- Employment insurance premium revenues were down \$0.2 billion, or 1.6 per cent, attributable to a decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.

- Net GST revenues were up \$0.2 billion, or 1.8 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.5 per cent in the first six months of 1998-99, in line with the growth in consumer demand. However, refunds were up 9.5 per cent, thereby depressing the growth in net revenues.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up 1.4 per cent, as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of a return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.1 billion or 3.7 per cent.

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Within program spending:

- Major transfers to persons were up \$0.2 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- Major transfers to other levels of government were virtually unchanged. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.5 billion, or 2.4 per cent. This component includes payments to Crown corporations, subsidies and other transfer payments, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.2 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, as well as to higher payments under the *Farm Income Protection Act* and increased health-related transfers. Partially offsetting the impact of these increases were lower transfers to NAVCAN, in line with the reductions in the air transportation tax. Payments to Crown corporations were marginally lower, while operating and capital expenditures were up 2.6 per cent.

Public debt charges were marginally lower, primarily due to a decline in the overall stock of interest-bearing debt.

Year-to-date: financial surplus of \$5.6 billion (excluding foreign transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.8 billion in the April to September 1998 period, compared to a net requirement of \$5.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.6 billion in the first six months of 1998-99, up from \$2.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$16.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of this Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure.

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Table 3

Budgetary expenditures

	September		April to September		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,866	1,872	11,014	11,257	2.2
Employment insurance benefits	856	781	5,425	5,363	-1.1
Total	2,722	2,653	16,439	16,620	1.1
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	6,250	6,250	0.0
Fiscal transfers	769	784	4,617	4,698	1.8
Alternative Payments for Standing Programs	-178	-187	-1,065	-1,120	5.2
Total	1,633	1,639	9,802	9,828	0.3
Direct program spending					
Subsidies and other transfers					
Agriculture	71	39	217	262	20.7
Foreign Affairs	131	143	716	657	-8.2
Health	45	55	380	469	23.4
Human Resources Development	124	159	620	842	35.8
Indian and Northern Development	312	307	2,129	2,190	2.9
Industry and Regional Development	95	125	589	621	5.4
Veterans Affairs	118	115	688	681	-1.0
Other	196	165	1,171	983	-16.1
Total	1,092	1,108	6,510	6,705	3.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	69	66	448	400	-10.7
Canada Mortgage and Housing Corporation	118	120	757	867	14.5
Other	108	81	576	490	-14.9
Total	295	267	1,781	1,757	-1.3
Operating and capital expenditures					
Defence	763	687	3,926	3,761	-4.2
All other departmental expenditures	1,260	1,476	7,310	7,766	6.2
Total	2,023	2,163	11,236	11,527	2.6
Total direct program spending	3,410	3,538	19,527	19,989	2.4
Total program expenditures	7,765	7,830	45,768	46,437	1.5
Public debt charges	3,456	3,376	20,495	20,457	-0.2
Total budgetary expenditures	11,221	11,206	66,263	66,894	1.0
Memorandum item:					
Total transfers	5,447	5,400	32,751	33,153	1.2

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Table 4

The budgetary balance and financial requirements/surplus

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budget balance: deficit (-)/surplus (+)	2,511	2,427	8,352	10,415
Loans, investments and advances				
Crown corporations	249	122	389	730
Other	-95	-544	35	-384
Total	154	-422	424	346
Specified purpose accounts				
Canada Pension Plan Account	425	1,028	825	1,389
Superannuation accounts	334	363	1,018	1,891
Other	-1	24	-272	19
Total	758	1,415	1,571	3,299
Other transactions	-1,768	-2,378	-7,204	-8,440
Total non-budgetary transactions	-856	-1,385	-5,209	-4,795
Financial requirements/surplus (excluding foreign exchange transactions)	1,655	1,042	3,143	5,620
Foreign exchange transactions	-585	-1,054	3,288	5,835
Net financial balances	1,070	-12	6,431	11,455

Table 5

Net financial balance and net borrowings

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	1,070	-12	6,431	11,455
Net increase(+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	1,012	-6,492	9,850	6,031
Canada Savings Bonds	-195	-99	-1,639	-2,116
Treasury bills	-2,200	-3,600	-20,100	-26,400
Other	-453	-1,004	380	543
Subtotal	-1,836	-11,195	-11,509	-21,942
Less: Government's holdings of unmatured debt	119	77	756	532
Total	-1,717	-11,118	-10,753	-21,410
Payable in foreign currencies				
Marketable bonds	0	308	-716	3,877
Notes and loans	0	0	0	0
Canada bills	-274	1,754	-1,224	2,035
Canada notes	0	-53	-326	-926
Total	-274	2,009	-2,266	4,986
Net change in borrowings	1,991	-9,109	-13,019	-16,424
Change in cash balance	-921	-9,121	-6,588	-4,969

Table 6

Condensed statement of assets and liabilities

	March 31 1998	September 30 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	9,182	-13,182
Interest and matured debt	10,419	10,572	153
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	30,671	-13,029
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,348	1,891
Canada Pension Plan (net of securities)	4,205	5,595	1,390
Other pension and other accounts	5,872	5,890	18
Total pension and other accounts	127,534	130,833	3,299
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,614	6,031
Treasury bills	112,300	85,900	-26,400
Canada Savings Bonds	29,769	28,185	-1,584
Other	3,456	3,999	543
Subtotal	440,108	418,698	-21,410
Payable in foreign currencies	27,183	32,170	4,987
Total unmaturred debt	467,291	450,868	-16,423
Total interest-bearing debt	594,825	581,701	-13,124
Total liabilities	638,525	612,372	-26,153
Assets			
Cash and accounts receivable	15,813	6,256	-9,557
Foreign exchange accounts	28,968	23,133	-5,835
Loans, investments and advances (net of allowances)	14,036	13,690	-346
Total assets	58,817	43,079	-15,738
Accumulated deficit	579,708	569,293	-10,415

The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all these factors into account, in the first six months of 1998-99, there was a net source of funds of \$5.8 billion from foreign exchange

transactions, up from a source of \$3.3 billion in the same period last year.

With a budgetary surplus of \$10.4 billion, a net requirement of \$4.8 billion from non-budgetary transactions, and a net source of funds of \$5.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion, over the April to September 1998 period, compared to \$6.4 billion in the same period last year.

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Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: Public Accounts of Canada - 1997.

With this net financial balance, coupled with a reduction in cash balances of \$5.0 billion, the government retired \$16.4 billion of market debt in the first six months of 1998-99. Cash balances at the end of September 1998 were \$5.3 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenue net of the applicable input tax credits, rebates and the low-income credit, along with net proceeds from the sale of Crown corporations and gifts

to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to retire debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has asked the House of Commons Standing Committee on Finance to review this issue and advise the government.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1998

Budgetary deficit of \$0.8 billion in October 1998

A budgetary deficit of \$0.8 billion was recorded in October 1998, up \$0.2 billion from the deficit of \$0.6 billion recorded in the same period last year. A deficit was expected in October, reflecting timing factors affecting both revenues and program spending. For example, revenues are adversely affected in October by the quarterly payment of the low-income goods and services tax (GST) credit and the remittance procedures for personal income tax and employment insurance premium liabilities. Program spending is skewed towards the latter half of the fiscal year, reflecting the timing of payments. In addition, for 1998-99, the impact of the 1998 budget tax relief and spending initiatives primarily affects the latter half of the fiscal year.

On a year-over-year basis, budgetary revenues were marginally lower as higher non-tax revenues, personal income tax revenues, GST revenues and other tax revenues were offset by declines in the other revenue components, most notably corporate income tax revenues and customs import duties.

Program spending was up 1.6 per cent, primarily attributable to higher operating and capital expenditures, increased elderly benefit payments and increased payments to Crown corporations. Dampening the impact of these increases were lower subsidies and other transfers.

Public debt charges were up by 1 per cent, due to a slight increase in the average effective interest rate on interest-bearing debt.

Year-to-date: budgetary surplus up \$1.9 billion

Over the first seven months (April to October) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.6 billion, up \$1.9 billion from the surplus of \$7.7 billion recorded over the first seven months of 1997-98. Budgetary revenues were up \$2.7 billion (3.1 per cent), program spending was

up \$0.8 billion (1.5 per cent), while public debt charges were unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.0 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. Revenues to date were adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.
- Corporate income tax revenues were up \$0.7 billion, or 6.9 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period last year. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections.



Department of Finance
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Table 1

Summary statement of transactions

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	11,531	11,522	86,146	88,831
Program spending	-8,761	-8,899	-54,528	-55,335
Operating balance	2,770	2,623	31,618	33,496
Public debt charges	-3,408	-3,441	-23,904	-23,899
Budgetary balance (deficit/surplus)	-638	-818	7,714	9,597
Non-budgetary transactions	1,010	-137	-4,200	-4,931
Financial requirements/surplus (excluding foreign exchange transactions)	372	-955	3,514	4,666
Foreign exchange transactions	677	-297	3,965	5,538
Net financial balance	1,049	-1,252	7,479	10,204
Net change in borrowings	1,614	-1,982	-11,405	-18,406
Net change in cash balances	2,663	-3,234	-3,926	-8,202

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

- Employment insurance premium revenues were down \$0.2 billion, or 1.9 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.
- Net GST revenues were up \$0.2 billion, or 2.0 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.4 per cent in the first seven months over 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 9.6 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.1 billion, or 8.6 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were unchanged, as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of a return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.1 billion, or 3.2 per cent.

Within program spending:

- Major transfers to persons were up \$0.3 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- Major transfers to other levels of government were up slightly as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.5 billion, or 2.0 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.1 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the

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Table 2

Budgetary revenues

	October		April to October		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,411	5,450	41,308	43,355	5.0
Corporate income tax	1,473	1,353	9,756	10,430	6.9
Other income tax revenue	190	273	1,389	1,383	-0.4
Total income tax	7,074	7,076	52,453	55,168	5.2
Employment insurance premium revenues	1,382	1,322	11,976	11,744	-1.9
Excise taxes and duties					
Goods and services tax	1,706	1,764	11,897	12,133	2.0
Customs import duties	348	190	1,618	1,479	-8.6
Sales and excise taxes	759	706	5,102	5,107	0.1
Total excise taxes and duties	2,813	2,660	18,617	18,719	0.5
Total tax revenues	11,269	11,058	83,046	85,631	3.1
Non-tax revenues	262	464	3,100	3,200	3.2
Total budgetary revenues	11,531	11,522	86,146	88,831	3.1

Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 2.8 per cent.

Public debt charges were virtually unchanged, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$4.7 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities.

These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.9 billion in the April to October 1998 period, compared to a net requirement of \$4.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.7 billion in the first seven months of 1998-99, up \$1.2 billion in the same period last year.

Year-to-date: net financial balance of \$10.2 billion/net borrowings down \$18.4 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars

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Table 3

Budgetary expenditures

	October		April to October		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,830	1,928	12,844	13,185	2.7
Employment insurance benefits	761	747	6,186	6,110	-1.2
Total	2,591	2,675	19,030	19,295	1.4
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	7,292	7,292	0.0
Fiscal transfers	777	829	5,394	5,527	2.5
Alternative Payments for Standing Programs	-178	-185	-1,243	-1,305	5.0
Total	1,641	1,686	11,443	11,514	0.6
Direct program spending					
Subsidies and other transfers					
Agriculture	101	27	318	289	-9.1
Foreign Affairs	95	108	811	766	-5.5
Health	93	91	473	560	18.4
Human Resources Development	168	141	785	979	24.7
Indian and Northern Development	249	261	2,377	2,451	3.1
Industry and Regional Development	154	140	743	761	2.4
Veterans Affairs	115	114	803	795	-1.0
Other	250	212	1,421	1,195	-15.9
Total	1,225	1,094	7,731	7,796	0.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	105	522	505	-3.3
Canada Mortgage and Housing Corporation	167	135	924	1,002	8.4
Other	58	91	634	581	-8.4
Total	299	331	2,080	2,088	0.4
Operating and capital expenditures					
Defence	1,005	966	4,931	4,727	-4.1
All other departmental expenditures	2,000	2,146	9,313	9,915	6.5
Total	3,005	3,112	14,244	14,642	2.8
Total direct program spending	4,529	4,537	24,055	24,526	2.0
Total program expenditures	8,761	8,899	54,528	55,335	1.5
Public debt charges	3,408	3,441	23,904	23,899	0.0
Total budgetary expenditures	12,169	12,340	78,432	79,234	1.0
Memorandum item					
Total transfers	5,457	5,455	38,204	38,605	1.0

Table 4

The budgetary balance and financial requirements/surplus

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-638	-818	7,714	9,597
Loans, investments and advances				
Crown corporations	-118	19	271	750
Other	-85	-52	-50	-437
Total	-203	-33	221	313
Specified purpose accounts				
Canada Pension Plan Account	164	-447	989	942
Superannuation accounts	318	319	1,336	2,211
Other	60	35	-214	54
Total	542	-93	2,111	3,207
Other transactions	671	-11	-6,532	-8,451
Total non-budgetary transactions	1,010	-137	-4,200	-4,931
Financial requirements/surplus (excluding foreign exchange transactions)	372	-955	3,514	4,666
Foreign exchange transactions	677	-297	3,965	5,538
Net financial balance	1,049	-1,252	7,479	10,204

Table 5

Net financial balance and net borrowings

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	1,049	-1,252	7,479	10,204
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-2,775	-3,100	7,075	2,931
Canada Savings Bonds	-428	-370	-2,067	-2,486
Treasury bills	4,600	800	-15,500	-25,600
Other	-388	377	-8	919
Subtotal	1,009	-2,293	-10,500	-24,236
Less: Government's holding of unmatured debt	38	34	794	567
Total	1,047	-2,259	-9,706	-23,669
Payable in foreign currencies				
Marketable bonds	438	511	-278	4,388
Notes and loans	0	0	0	0
Canada bills	198	-213	-1,026	1,822
Canada notes	-69	-21	-395	-947
Total	567	277	-1,699	5,263
Total change in borrowings	1,614	-1,982	-11,405	-18,406
Change in cash balance	2,663	-3,234	-3,926	-8,202

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	October 31, 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	8,468	-13,896
Interest and matured debt	10,419	11,798	1,379
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	31,183	-12,517
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,667	2,210
Canada Pension Plan (net of securities)	4,205	5,147	942
Other pension and other accounts	5,872	5,926	54
Total pension and other accounts	127,534	130,740	3,206
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	297,514	2,931
Treasury bills	112,300	86,700	-25,600
Canada Savings Bonds	29,769	27,849	-1,920
Other	3,456	4,376	920
Subtotal	440,108	416,439	-23,669
Payable in foreign currencies	27,183	32,446	5,263
Total unmatured debt	467,291	448,885	-18,406
Total interest-bearing debt	594,825	579,625	-15,200
Total liabilities	638,525	610,808	-27,717
Assets			
Cash and accounts receivable	15,813	3,544	-12,269
Foreign exchange accounts	28,968	23,430	-5,538
Loans, investments and advances (net of allowances)	14,036	13,723	-313
Total assets	58,817	40,697	-18,120
Accumulated deficit	579,708	570,111	-9,597

represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all these factors into account, in the first seven months of 1998-99, there was a net source of funds of \$5.5 billion from foreign exchange transactions, up from a source of \$4.0 billion in the same period last year.

With a budgetary surplus of \$9.6 billion, a net requirement of \$4.9 billion from non-budgetary

transactions, and a net source of funds of \$5.5 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.2 billion over the April to October 1998 period, compared to \$7.5 billion in the same period last year.

With this net financial balance, coupled with a reduction in cash balances of \$8.2 billion, the government retired \$18.4 billion of market debt in the first seven months of 1998-99. Cash balances at the end of October 1998 were \$2.1 billion.

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December 1998



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1998

Budgetary surplus of \$64 million in November 1998, down \$399 million from November 1997

A budgetary surplus of \$64 million was recorded in November 1998, down \$399 million from the surplus of \$463 million recorded in November 1997. Budgetary revenues were up \$559 million or 4.7 per cent, program spending increased by \$569 million, or 6.8 per cent, while public debt charges were up \$389 million, or 12.1 per cent.

The year-over-year increase in budgetary revenues reflected gains in personal and corporate income tax revenues, goods and services tax (GST) revenues, and non-tax revenues. The impact of these gains on total budgetary revenues was dampened by lower customs import duties, sales and excise taxes, and employment insurance premium revenues.

With the exception of expenditures related to Crown corporations and defence, all other major components of program spending were up on a year-over-year basis. Employment insurance benefit payments were up strongly, but most of this increase was attributable to an extra cheque cycle being processed in November 1998. The increases in subsidies and other transfers and all other departmental operating and capital expenditures were also largely attributable to timing factors.

The year-over-year increase in public debt charges was largely attributable to downward accrual adjustments to the November 1997 estimate, pertaining to overestimations in previous months.

Year-to-date: budgetary surplus of \$9.7 billion

Over the first eight months (April to November) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.7 billion, up \$1.5 billion from the surplus of \$8.2 billion recorded over the first eight months of 1997-98. However, this improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other seven months of 1998-99.

Since revenues are typically strong in December, in part reflecting remittances from quarterly filers, the year-to-date surplus is expected to rise further in December 1998. However, monthly deficits are expected in the final quarter of 1998-99. The recently announced reductions in employment insurance premium rates are effective January 1, 1999. Revenues are typically depressed in January, due to the payment of the GST low-income credit and refunds. Corporate income tax revenues are expected to be significantly lower in the February/March 1999 settlement period, reflecting the decline in corporate profits in 1998 (see below for more details). Exchange fund earnings, which are reported in March, will also be significantly lower than in March 1998, due to the actions during 1998 to support the Canadian dollar. Personal income tax refunds, pertaining to the processing of the 1998 tax returns, will further depress revenues in March 1999. These factors will all serve to bring the underlying surplus for 1998-99 to below that recorded in 1997-98.



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Table 1
Summary statement of transactions

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	11,983	12,542	98,129	101,373
Program spending	-8,312	-8,881	-62,839	-64,216
Operating surplus	3,671	3,661	35,290	37,157
Public debt charges	-3,208	-3,597	-27,112	-27,496
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483
Net change in borrowings	-105	3,339	-11,510	-15,068
Net change in cash balances	3,754	-294	-170	-8,585

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Over the first eight months of 1998-99, budgetary revenues were up \$3.2 billion (3.3 per cent), program spending was up \$1.4 billion (2.2 per cent), while public debt charges were \$0.4 billion (1.4 per cent) higher, compared to the first eight months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 4.6 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a transfer of \$0.3 billion to employment insurance premium revenues. Both of these factors relate to the 1997 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from

personal income tax revenues, are up \$0.2 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.8 billion, or 7.7 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period in 1997. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to

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Table 2
Budgetary revenues

	November		April to November		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,878	6,004	47,186	49,359	4.6
Corporate income tax	1,321	1,496	11,077	11,926	7.7
Other income tax revenue	194	173	1,584	1,556	-1.8
Total income tax	7,393	7,673	59,847	62,841	5.0
Employment insurance premium revenues	1,221	1,194	13,196	12,938	-2.0
Excise taxes and duties					
Goods and services tax	1,984	2,222	13,881	14,355	3.4
Customs import duties	242	172	1,860	1,652	-11.2
Sales and excise taxes	845	719	5,946	5,827	-2.0
Total excise taxes and duties	3,071	3,113	21,687	21,834	0.7
Total tax revenues	11,685	11,980	94,730	97,613	3.0
Non-tax revenues	298	562	3,399	3,760	10.6
Total budgetary revenues	11,983	12,542	98,129	101,373	3.3

collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were down \$0.3 billion, or 2.0 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). With an announced employee rate of \$2.55 for 1999, premium revenues will be lower in 1998-99 than in 1997-98.
- Net GST revenues were up \$0.5 billion, or 3.4 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 6.4 per cent in the first eight months of 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 10.5 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.2 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.1 billion, or 2.0 per cent, largely due to the reduction in the Air Transport Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.4 billion or 10.6 per cent.

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Table 3

Budgetary expenditures

Budgetary expenditures					
	November		April to November		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,867	1,899	14,711	15,084	2.5
Employment insurance benefits	837	944	7,023	7,054	0.4
Total	2,704	2,843	21,734	22,138	1.9
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	8,333	8,333	0.0
Fiscal transfers	777	828	6,171	6,355	3.0
Alternative Payments for Standing Programs	-180	-189	-1,423	-1,494	5.0
Total	1,639	1,681	13,081	13,194	0.9
Direct program spending					
Subsidies and other transfers					
Agriculture	54	106	371	394	6.2
Foreign Affairs	111	19	922	784	-15.0
Health	40	91	512	651	27.1
Human Resources Development	98	113	883	1,091	23.6
Indian and Northern Development	265	272	2,642	2,723	3.1
Industry and Regional Development	121	120	865	881	1.8
Veterans Affairs	112	115	915	910	-0.5
Other	150	398	1,571	1,593	1.4
Total	951	1,234	8,681	9,027	4.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	75	80	597	585	-2.0
Canada Mortgage and Housing Corporation	153	143	1,077	1,145	6.3
Other	88	69	722	650	-10.0
Total	316	292	2,396	2,380	-0.7
Operating and capital expenditures					
Defence	982	848	5,913	5,575	-5.7
All other departmental expenditures	1,720	1,983	11,034	11,902	7.9
Total	2,702	2,831	16,947	17,477	3.1
Total direct program spending	3,969	4,357	28,024	28,884	3.1
Total program expenditures	8,312	8,881	62,839	64,216	2.2
Public debt charges	3,208	3,597	27,112	27,496	1.4
Total budgetary expenditures	11,520	12,478	89,951	91,712	2.0
Memorandum item:					
Total transfers	5,294	5,758	43,496	44,359	2.0

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Table 4

The budgetary balance and financial requirements/surplus

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Loans, investments and advances				
Crown corporations	-92	141	180	891
Other	-72	-26	-123	-463
Total	-164	115	57	428
Specified purpose accounts				
Canada Pension Plan Account	-691	-593	299	349
Superannuation accounts	342	322	1,678	2,533
Other	7	-10	-207	45
Total	-342	-281	1,770	2,927
Other transactions	2,264	2,832	-4,268	-5,708
Total non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483

Table 5

Net financial balance and net borrowings

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,859	-3,634	11,340	6,483
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,500	-1,100	10,575	1,831
Canada Savings Bonds	109	290	-1,958	-2,197
Treasury bills	-3,500	-500	-19,000	-26,100
Other	168	362	160	1,281
Subtotal	277	-948	-10,223	-25,185
Less: Government's holding of unmatured debt	-822	-415	-28	151
Total	-545	-1,363	-10,251	-25,034
Payable in foreign currencies				
Marketable bonds	42	4,838	-236	9,226
Notes and loans	0	0	0	0
Canada bills	342	-136	-684	1,687
Canada notes	56	-	-339	-947
Total	440	4,702	-1,259	9,966
Net change in borrowings	-105	3,339	-11,510	-15,068
Change in cash balance	3,754	-294	-170	-8,585

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Within program spending:

- Major transfers to persons were up \$0.4 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly, reflecting the extra cheque processing cycle in November 1998.
- Major transfers to other levels of government were up \$0.1 billion, as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CSHT are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.9 billion, or 3.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.3 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 3.1 per cent.

Public debt charges were up \$0.4 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$7.3 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$2.4 billion in the April to November 1998 period, virtually unchanged from the net requirement in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.3 billion in the first eight months of 1998-99, up \$1.6 billion from the same period in 1997-98.

**Year-to-date: net financial balance
of \$6.5 billion/net borrowings
down \$15.1 billion**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the first eight months of 1998-99, there was a net requirement of funds of \$0.8 billion from foreign exchange transactions, compared to a net source of \$5.6 billion in the same period last year.

With a budgetary surplus of \$9.7 billion, a net requirement of \$2.4 billion from non-budgetary transactions, and a net requirement of \$0.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$6.5 billion over the April to November 1998 period, compared to a surplus of \$11.3 billion in the same period in 1997.

With this net financial balance, coupled with a reduction in cash balances of \$8.6 billion, the government retired \$15.1 billion of market debt in the first eight months of 1998-99. Cash balances at the end of November 1998 were \$1.8 billion.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	November 30, 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,176	-12,188
Interest and matured debt	10,419	12,909	2,490
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	34,002	-9,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,989	2,532
Canada Pension Plan (net of securities)	4,205	4,554	349
Other pension and other accounts	5,872	5,916	44
Total pension and other accounts	127,534	130,459	2,925
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	296,414	1,831
Treasury bills	112,300	86,200	-26,100
Canada Savings Bonds	29,769	27,723	-2,046
Other	3,456	4,738	1,282
Subtotal	440,108	415,075	-25,033
Payable in foreign currencies	27,183	37,149	9,966
Total unmatured debt	467,291	452,224	-15,067
Total interest-bearing debt	594,825	582,683	-12,142
Total liabilities	638,525	616,685	-21,840
Assets			
Cash and accounts receivable	15,813	3,237	-12,576
Foreign exchange accounts	28,968	29,793	825
Loans, investments and advances (net of allowances)	14,036	13,608	-428
Total assets	58,817	46,638	-12,179
Accumulated deficit (net public debt)	579,708	570,047	-9,661

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January 1999



The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1998

Budgetary surplus up slightly in December 1998

The budgetary surplus was \$2.0 billion in December 1998, up \$66 million from that recorded in December 1997. As mentioned in last month's Fiscal Monitor, a surplus was expected in December. Over the course of the fiscal year, budgetary revenues are usually their highest in the final month of each quarter, in large part reflecting remittances from quarterly personal income tax filers.

Budgetary revenues in December 1998 were virtually unchanged from December 1997, as increases in employment insurance premium revenues and goods and services tax (GST) revenues were offset by declines in the other major components. The year-over-year increase in employment insurance premium revenues was attributable to a transfer of funds to personal income tax revenues in December 1997, relating to taxation year 1996, which reduced employment insurance premium revenues in that month. Conversely, this transfer accounts for the decline in personal income tax revenues. Corporate income tax revenues were lower, attributable to final taxes payable for those corporations with taxation years ending in October.

Program spending was 1.0 per cent lower in December 1998 than in December 1997, as lower subsidies and other transfers more than offset increases in the other major components. Public debt charges were up 2.0 per cent, as the impact of a higher average effective interest rate more than offset the decline in interest-bearing debt.

Year-to-date: budgetary surplus of \$11.7 billion

Over the first nine months (April to December) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$11.7 billion, up \$1.5 billion from the surplus of \$10.2 billion reported in the first nine months of 1997-98. However, this improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other eight months of 1998-99.

Monthly deficits are expected through the final quarter of 1998-99. Revenues are typically depressed in January, due to the payment of the GST low-income credit and refunds. Corporate income tax revenues are expected to be significantly lower in the February/March 1999 settlement period (down \$1.0 billion), reflecting the decline in corporate profits in 1998 (see below for more details). Data revisions for 1998-99 and prior years have resulted in large upward adjustments to Equalization transfers, of which \$1.7 billion will be paid before the end of the fiscal year. Finally, timing of revenues and spending at year end also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by \$3.2 billion.

In addition to these factors, there have been a number of policy decisions made since the February 1998 budget, including those in the 1999 budget, which will reduce the surplus by an additional \$5.5 billion. As a result,



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Table 1
Summary statement of transactions

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	14,769	14,811	112,892	116,178
Program spending	-9,282	-9,189	-72,115	-73,399
Operating surplus	5,487	5,622	40,777	42,779
Public debt charges	-3,493	-3,562	-30,605	-31,058
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Net change in cash balances	2,065	7,429	1,900	-1,158

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

a balanced budget, or better, is expected for 1998-99. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 1999*.

Over the first nine months of 1998-99, budgetary revenues were up \$3.3 billion (2.9 per cent), program spending was up \$1.3 billion (1.8 per cent), while public debt charges were \$0.5 billion (1.5 per cent) higher, compared to the first nine months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 3.7 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, reflecting the increases in the number of people employed, as well as higher taxes paid on filing, relating to the strong income growth in the 1997 taxation year. The overall growth in

personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a net transfer of \$0.7 billion to employment insurance premium revenues. Both of these factors relate to the 1997 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.2 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.5 billion, or 3.4 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period in 1997. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement

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Table 2
Budgetary revenues

	December		April to December		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	8,331	8,185	55,517	57,544	3.7
Corporate income tax	2,058	1,662	13,136	13,588	3.4
Other income tax revenue	23	165	1,607	1,721	7.1
Total income tax	10,412	10,012	70,260	72,853	3.7
Employment insurance premium revenues	670	1,055	13,866	13,993	0.9
Excise taxes and duties					
Goods and services tax	1,661	1,593	15,542	16,348	5.2
Customs import duties	212	166	2,072	1,818	-12.3
Sales and excise taxes	709	595	6,655	6,420	-3.5
Total excise taxes and duties	2,582	2,754	24,269	24,586	1.3
Total tax revenues	13,664	13,821	108,395	111,432	2.8
Non-tax revenues	1,105	990	4,497	4,746	5.5
Total budgetary revenues	14,769	14,811	112,892	116,178	2.9

payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. Since instalment payments for 1997 understated the actual tax liability for the year as a whole, instalments for 1998 were increased to reflect the actual 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. However, with corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998. In fact, corporate tax collections declined in December, as companies with their taxation year ending in October filed their 1998 returns.

- Employment insurance premium revenues were up \$0.1 billion, or 0.9 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to 1997 taxation year. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). With an announced employee rate of \$2.55 for 1999, premium revenues will be lower in 1998-99 than in 1997-98.

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Table 3

Budgetary expenditures

	December		April to December		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,923	16,575	17,008	2.6
Employment insurance benefits	1,024	1,047	8,047	8,101	0.7
Total	2,887	2,970	24,622	25,109	2.0
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	9,375	9,375	0.0
Fiscal transfers	778	828	6,949	7,184	3.4
Alternative Payments for Standing Programs	-180	-187	-1,603	-1,681	4.9
Total	1,640	1,683	14,721	14,878	1.1
Direct program spending					
Subsidies and other transfers					
Agriculture	35	79	407	474	16.5
Foreign Affairs	192	203	1,114	987	-11.4
Health	96	69	608	720	18.4
Human Resources Development	122	288	1,005	1,380	37.3
Indian and Northern Development	299	285	2,941	3,007	2.2
Industry and Regional Development	228	173	1,093	1,055	-3.5
Veterans Affairs	108	114	1,024	1,024	0.0
Other	458	58	2,030	1,651	-18.7
Total	1,538	1,269	10,222	10,298	0.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	75	174	672	759	12.9
Canada Mortgage and Housing Corporation	225	165	1,303	1,310	0.5
Other	108	83	830	733	-11.7
Total	408	422	2,805	2,802	-0.1
Operating and capital expenditures					
Defence	942	979	6,855	6,553	-4.4
All other departmental expenditures	1,867	1,866	12,890	13,759	6.7
Total	2,809	2,845	19,745	20,312	2.9
Total direct program spending	4,755	4,536	32,772	33,412	2.0
Total program expenditures	9,282	9,189	72,115	73,399	1.8
Public debt charges	3,493	3,562	30,605	31,058	1.5
Total budgetary expenditures	12,775	12,751	102,720	104,457	1.7
Memorandum item:					
Total transfers	6,065	5,922	49,565	50,285	1.5

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Table 4

The budgetary balance and financial requirements/surplus

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Loans, investments and advances				
Crown corporations	460	204	640	1,095
Other	75	11	-48	-452
Total	535	215	592	643
Specified purpose accounts				
Canada Pension Plan Account	-502	-409	-203	-60
Superannuation accounts	377	427	2,056	2,959
Other	-37	-37	-243	8
Total	-162	-19	1,610	2,907
Other transactions	-1,342	-2,492	-5,609	-8,200
Total non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465

Table 5

Net financial balance and net borrowings

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,413	3,983	14,755	10,465
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	6,313	4,141	16,888	5,972
Canada Savings Bonds	-248	48	-2,205	-2,149
Treasury bills	-7,600	900	-26,600	-25,200
Other	-1		159	1,281
Subtotal	-1,536	5,089	-11,758	-20,096
Less: Government's holding of unmatured debt	-24	-630	-52	-479
Total	-1,560	4,459	-11,810	-20,575
Payable in foreign currencies				
Marketable bonds	109		-126	9,226
Notes and loans	0	0	0	0
Canada bills	117	-885	-566	801
Canada notes	-14	-128	-353	-1,075
Total	212	-1,013	-1,045	8,952
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Change in cash balance	2,065	7,429	1,900	-1,158

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- Net GST revenues were up \$0.8 billion, or 5.2 per cent, in line with the growth in consumer demand. Customs import duties were down \$0.3 billion, or 12.3 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 3.5 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.2 billion or 5.5 per cent.

Within program spending:

- Major transfers to persons were up \$0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.
- Major transfers to other levels of government were up \$0.2 billion, as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.6 billion, or 2.0 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.1 billion. Most of this increase was

due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 2.9 per cent.

- Public debt charges were up \$0.5 billion, or 1.5 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$7.1 billion (excluding foreign exchange transactions)

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ from the budgetary balance, as the former includes transactions in loans, investments, and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$4.6 billion in the April to December 1998 period, up \$1.2 billion from the net requirement recorded in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.1 billion in the first nine months of 1998-99, up \$0.3 billion from the same period in 1997-98.

Table 6

Condensed statement of assets and liabilities

	March 31 1998	December 31 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	12,747	-9,617
Interest and matured debt	10,419	8,672	-1,747
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,336	-11,364
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,416	2,959
Canada Pension Plan (net of securities)	4,205	4,146	-59
Other pension and other accounts	5,872	5,880	8
Total pension and other accounts	127,534	130,442	2,908
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	87,100	-25,200
Canada Savings Bonds	29,769	27,641	-2,128
Other	3,456	4,737	1,281
Subtotal	440,108	419,533	-20,575
Payable in foreign currencies	27,183	36,136	8,953
Total unmatrued debt	467,291	455,669	-11,622
Total interest-bearing debt	594,825	586,111	-8,714
Total liabilities	638,525	618,447	-20,078
Assets			
Cash and accounts receivable	15,813	11,493	-4,320
Foreign exchange accounts	28,968	25,574	-3,394
Loans, investments and advances (net of allowances)	14,036	13,393	-643
Total assets	58,817	50,460	-8,357
Accumulated deficit (net public debt)	579,708	567,987	-11,721

Year-to-date: net financial balance of \$10.5 billion/net borrowings down \$11.6 billion

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. The buying of Canadian

dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions.

Taking all of these factors into account, in the first nine months of 1998-99, there was a net source of funds of \$3.4 billion from foreign exchange transactions, compared to a net source of \$8.0 billion in the first nine months of 1997-98.

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Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: Public Accounts of Canada

With a budgetary surplus of \$11.7 billion, a net requirement of \$4.6 billion from non-budgetary transactions, and a net source of funds of \$3.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.5 billion over the April to December 1998 period, compared to a surplus of \$14.8 billion in April to December 1997.

With this net financial balance, coupled with a reduction in cash balances of \$1.2 billion, the government retired \$11.6 billion of market debt in the first nine months of 1998-99. Cash balances at the end of December 1998 were \$9.2 billion.

Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. Effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates, and low-income credit, along with net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to retire debt. The Account is audited on an annual basis by the Auditor General of Canada.

In his "Observations" on the 1996-97 financial statements and in his appearance before the House of Commons Standing Committee on Finance, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has asked the Committee to review this issue and advise the government.

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